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Foreign Relations of the United States, 1955–1957

Volume VII

American Republics: Central and South America

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Preface

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. The volumes in the series include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions of the United States together with appropriate materials concerning the facts which contributed to the formulation of policies. Documents in the files of the Department of State are supplemented by papers from other government agencies involved in the formulation of foreign policy.

The basic documentary diplomatic record printed in the volumes of the series *Foreign Relations of the United States* is edited by the Office of The Historian, Bureau of Public Affairs, Department of State. The editing is guided by the principles of historical objectivity and in accordance with the following official guidance first promulgated by Secretary of State Frank B. Kellogg on March 26, 1925.

There may be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing may be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

> a. To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.
>
> b. To condense the record and avoid repetition of needless details.
>
> c. To preserve the confidence reposed in the Department by individuals and by foreign governments.
>
> d. To avoid giving needless offense to other nationalities or individuals.
>
> e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternative presented to the Department before the decision was made.

Documents selected for publication in the *Foreign Relations* volumes are referred to the Department of State Classification/Declassification Center for declassification clearance. The Center reviews the documents, makes declassification decisions, and obtains the clearance of geographic and functional bureaus of the Department of

State, as well as of other appropriate agencies of the government. The Center, in coordination with the geographic bureaus of the Department of State, conducts communications with foreign governments regarding documents or information of those governments proposed for inclusion in *Foreign Relations* volumes.

N. Stephen Kane supervised the planning of this volume. John P. Glennon directed its final preparation. Mr. Kane edited the compilations on El Salvador; Edith James, the compilations on Bolivia, Paraguay, Uruguay, and Venezuela; Robert McMahon, those on Argentina, Brazil, Chile, Panama, and Peru; and Delia Pitts the remaining compilations.

The Documentary Editing Section under the supervision of Rita M. Baker performed technical editing in the Publishing Services Division (Paul M. Washington, Chief). The Twin Oaks Indexing Collective prepared the index.

William Z. Slany
The Historian
Bureau of Public Affairs

Contents

Preface III

List of Sources VII

List of Abbreviations and Symbols XIII

List of Persons XIX

Central America:

United States policy regarding political developments in the Central American area 1

Costa Rica:

Political, economic, and military relations of the United States and Costa Rica 2

El Salvador:

United States relations with El Salvador 33

Guatemala:

Political and economic relations of the United States and Guatemala 47

Honduras:

Political, economic, and military relations of the United States and Honduras 155

Nicaragua:

Political and economic relations of the United States and Nicaragua 195

Panama:

Political and military relations of the United States and Panama; impact of the Suez Canal crisis 243

South America:

Argentina:

Political, economic, and military relations of the United States and Argentina 350

Bolivia:

Political and economic relations of the United States and Bolivia 508

Brazil:

Political, economic, and military relations of the United States and Brazil .. 627

Chile:

Political, economic, and military relations of the United States and Chile .. 776

Colombia:

Political, economic, and military relations of the United States and Colombia 855

Ecuador:

Political, economic, and military relations of the United States and Ecuador 952

Paraguay:

United States relations with Paraguay 998

Peru:

Political, economic, and military relations of the United States and Peru ... 1023

Uruguay:

Political and econimic relations of the United States and Uruguay 1086

Venezuela:

Political, economic, and military relations of the United States and Venezuela 1119

Index 1173

List of Sources

The principal source of documentation for this volume was the indexed central (decimal) files of the Department of State. Documents from the central files were supplemented by materials from decentralized office and bureau files, the "lot" files of the Department of State, and Embassy files. The editors have also examined files of other Executive Branch agencies, including the Department of Defense and the International Cooperation Administration, and record collections at the Dwight D. Eisenhower Presidential Library. A list of the unpublished documentary sources used in the preparation of this volume follows. It is divided into three sections: the lot files maintained by the Department of State, with information concerning their origin, scope, and size; the files of other Executive Branch agencies; and record collections at the Eisenhower Library.

Department of State

ARA Files, Lot 58 D 564

Subject files relating to Venezuela for the period 1948–1956, as retired by the Office of East Coast Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Files, Lot 59 D 2

Subject files relating to Cuba for the year 1957, as retired by the Office of Caribbiean and Mexican Affairs in the Bureau of Inter-American Affairs (Less than 1 ft.)

ARA Files, Lot 59 D 12

Subject files relating to Venezuela for the year 1957, as retired by the Office of East Coast Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Files, Lot 59 D 73

Chile desk files for the year 1956, as retired by the Office of West Coast Affairs in the Bureau of Inter-American Affairs. (1 ft.)

ARA Files, Lot 59 D 509

Argentina desk files for the year 1956, as retired by the Office of East Coast Affairs in the Bureau of Inter-American Affairs. (1 ft.)

ARA Files, Lot 60 D 67

Subject and chronological files relating to Chile for the year 1957, as retired by the Office of West Coast Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Files, Lot 60 D 667

Subject files relating to Panama for the years 1955–1958, as retired by the Office of Central American and Panamanian Affairs in the Bureau of Inter-American Affairs. (2 ft.)

ARA Files, Lot 62 D 308

Subject files relating to Brazil for the years 1956–1960, as retired by the Office of East Coast Affairs in the Bureau of Inter-American Affairs. (2 ft.)

ARA Deputy Assistant Secretary Files, Lot 58 D 691

Functional files of the Deputy Assistant Secretary of State for Inter-American Affairs (Thomas C. Mann, Robert Woodward, and Cecil B. Lyon) for the period 1951–1956, as maintained by the Office of the Deputy Assistant Secretary of State for Inter-American Affairs. (Less than 1 ft.)

ARA Special Assistant's Files, Lot 57 D 696

Subject files of the Special Assistant (Willliam L. Krieg and Spencer M. King) to the Assistant Secretary of State for Inter-American Affairs for the year 1955, as maintained by the Office of the Special Assistant in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Special Assistant's Files, Lot 58 D 749

Subject files of the Special Assistant (Spencer M. King) to the Assistant Secretary of State for Inter-American Affairs for the year 1956, as maintained by the Office of the Special Assistant in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Special Assistant's Files, Lot 59 D 376

Functional files of the Special Assistant (Spencer M. King and Henry A. Hoyt) to the Assistant Secretary of State for Inter-American Affairs for the year 1957, as maintained by the Office of the Special Assistant in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA/REA Files, Lot 61 D 248

Chronological, country, and subject files relating to general economic matters for the years 1955–1959, including sugar and coffee, miscellaneous conferences files, and Mutual Security Program estimates, as retired by the Office of Inter-American Regional Economic Affairs. (2 ft.)

ARA/REA Files, Lot 63 D 87

Records relating to the Mutual Security Program, technical assistance, and the technical cooperation program of the Organization of American States in Latin America for the years 1955–1960, as retired by the Office of Inter-American Regional Economic Affairs. (1 1/2 ft.)

Cabinet Meetings, Lot 68 D 350

Records relating to various foreign policy subjects discussed at Presidential Cabinet meetings from 1953 to 1965, as maintained by the Executive Secretariat. (2 ft.)

Caracas Embassy Files, Lot 64 F 14

Top secret central files of the Embassy in Caracas, Venezuela, for the period 1948–1956, which form item 40 of Federal Records Center Accession 63 A 5159. (1 ft.)

Conference Files, Lot 62 D 181

Collection of documentation on official visits by heads of government and foreign ministers to the United States and on major international conferences attended by the Secretary of State for the period 1956–1958, as maintained by the Executive Secretariat. (18 ft.)

Current Economic Developments, Lot 70 D 467

Master set of the Department of State classified internal publication *Current Economic Developments* for the years 1945–1969, as maintained in the Bureau of Economic Affairs. (7 ft.)

E Files, Lot 60 D 136

Subject and country files of the Export-Import Bank, as retired by the Economic Development Division in the Bureau of Economic Affairs. (2 3/4 ft.)

Holland Files, Lot 57 D 295

Memoranda and exchanges of official-informal correspondence between Assistant Secretary of State for Inter-American Affairs Henry F. Holland and Chiefs of Mission in Latin American countries. (2 ft.)

INR–NIE Files

Files of National Intelligence Estimates, Special Estimates, and Special National Intelligence Estimates, retained by the Directorate for Regional Research in the Bureau of Intelligence and Research.

Intelligence Files, Lot 58 D 776

Country, subject, and administrative files relating to U.S. intelligence organization and activities for the years 1945–1960, as maintained in the Office of the Director of the Bureau of Intelligence and Research. (Combines lots 62 D 42, 61 D 67, 60 D 644, 58 D 776, 58 D 159, and 53 D 500) (11 ft.)

IO/OIC Files, Lot 73 D 227

Subject files relating to international conferences and meetings for the years 1958–1959 and 1965, including the Conference on the Problem of Surprise Attack, Inter-American Committee of Presidential Representatives, Fifth Meeting of Consultation of Ministers of Foreign Affairs of American States, and COCOM, as retired by the Office of International Conferences in the Bureau of International Organization Affairs. (2 ft.)

MID Files, Lot 57 D 59

Economic and political subject files relating to Cuba for the year 1955, as retired by the Office of Middle American Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

MID Files, Lot 57 D 95

Chronological files for Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama for the years 1947–1956, including country briefing papers, monthly political summaries, and background material on the Meeting of the American Presidents in Panama in July 1956, as retired by the Office of Middle American Affairs in the Bureau of Inter-American Affairs. (3 ft.)

MID Files, Lot 58 D 103

Economic and political subject files relating to Cuba for the year 1956, as retired by the Office of Middle American Affairs in the Bureau of Inter-American Affairs. (1 1/4 ft.)

NAC Files, Lot 60 D 137

Master file of documents of the National Advisory Council on International Monetary and Financial Problems for the years 1945–1958, as maintained by the Bureau of Economic Affairs. (15 ft.)

OAP Files, Lot 59 D 6

Subject files relating to Guatemala for the year 1955, as retired by the Office of Central American and Panamanian Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

OAP Files, Lot 60 D 647

Guatemala desk files for the years 1956–1958, as retired by the Office of Central American and Panamanian Affairs in the Bureau of Inter-American Affairs. (2 1/3 ft.)

OAP Files, Lot 61 D 110

Chronological and subject files relating to Central America for the years 1957–1958, including correspondence with Ambassador Whiting Willauer, Dr. Milton Eisenhower's trip to Central America in 1958, and activities of the United Fruit Company, as retired by the Office of Central American and Panamanian Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

OAS Files, Lot 60 D 665

Basic collection of records of meetings of the Organization of American States, other major inter-American governmental organizations, and inter-American conferences, together with related subject files for the years 1939–1962, as maintained by the Office of Inter-American Regional Political Affairs. (173 ft.)

OSA Files, Lot 58 D 42

Brazilian desk files for the years 1954–1955, as retired by the Office of South American Affairs in the Bureau of Inter-American Affairs. (12 ft.)

Panama City Embassy Files, Lot 63 F 57

Classified and unclassified central files of the Embassy in Panama City, Panama, and United States Information Service files for the years 1953–1958, which form item 1 of Federal Records Center Accession 64 A 845. (18 ft.)

Rubottom Files, Lot 59 573

Working files of Assistant Secretary of State for Inter-American Affairs Roy R. Rubottom, Jr., for 1957, as maintained by the Office of the Assistant Secretary of State for Inter-American Affairs. (1 1/2 ft.)

Secretary's Memoranda of Conversation, Lot 64 D 199

Chronological collections of the Secretary of State's memoranda of conversation and the Under Secretary of State's memoranda of conversation for the years 1953–1960, as maintained by the Executive Secretariat. (7 ft.)

Secretary's Staff Meetings, Lot 63 D 75

Chronological collections of the minutes of the Secretary of State's Staff meetings during the years 1952–1960, as maintained by the Executive Secretariat. (4 ft.)

S/P–NSC Files, Lot 61 D 167

Serial file of memoranda relating to National Security Council questions for the years 1950–1961, as maintained by the Policy Planning Staff. (17 ft.)

S/S–NSC Files, Lot 63 D 351

Serial master file of National Security Council documents and correspondence and related Department of State memoranda for the years 1947–1961, as maintained by the Executive Secretariat. (20 ft.)

S/S–OCB Files, Lot 61 D 385

Master set of the administrative and country files of the Operations Coordinating Board for the years 1953–1960, as maintained in the Operations Staff. (25 ft.)

S/S–OCB Files, Lot 62 D 430

Master file of the Operations Coordinating Board for the years 1953–1960, as maintained by the Executive Secretariat. (3 ft.)

State–JCS Meetings, Lot 61 D 417

Top secret records of meetings between representatives of the Department of State and the Joint Chiefs of Staff for the period 1951–1959 and selected problem files on the Middle East for the period 1954–1956, as maintained by the Executive Secretariat. (3 ft.)

Sugar Files, Lot 65 D 212

Country and subject files relating to sugar for the years 1932–1962, as retired by the Office of International Resources in the Bureau of Economic Affairs, which form item 79 of of Federal Records Center Accession 71 A 6682. (3 ft.)

UNP Files, Lot 58 D 224

Miscellaneous country and subject files relating to political issues before the United Nations for the years 1943–1956, including the Collective Measures Committees (1951–1952), Palestine, and Suez, as retired by the Office of United Nations Political and Security Affairs in the Bureau of International Organization Affairs, and which form item 64 of Federal Records Center Accession 71 A 5255. (8 ft.)

Other Executive Agencies

ICA Director's File, FRC 61 A 32

ICA Director's subject file containing correspondence, memoranda, reports, messages, and other material accumulated during the period 1955–1958, as retired by the International Cooperation Agency, and which forms part of Federal Records Center Accession 61 A 32.

ICA Message Files, FRC 58 A 405

Telegrams, airgrams, and cables to and from ICA Missions, July 1, 1956–June 30, 1957, as maintained by ICA Headquarters in Washington.

JCS Records

Records of the United States Joint Chiefs of Staff, maintained by the National Archives and Records Service as Record Group 218.

OASD/ISA Files

Records of the Office of the Assistant Secretary of Defense for International Security Affairs, arranged by countries and chronologically, which form parts of Federal Records Center Accessions 60 A 1025 (1955), 0 A 1339 (1956), and 61 A 1672 (1957).

Dwight D. Eisenhower Presidential Library

Eisenhower Library, CFEP Chairman Records

Records of the Office of the Chairman, United States Council on Foreign Economic Policy (Joseph M. Dodge and Clarence B. Randall), for the period 1954–1961.

Eisenhower Library, Fairless Committee Records, 1956–1957

Papers of the President's Citizen Advisers on the Mutual Security Program, established by President Eisenhower on September 22, 1956, to examine the foreign assistance activites of the United States.

Eisenhower Library, White House Central Files

Records of Dwight D. Eisenhower as President, White House Central Files, 1953–1961.

Eisenhower Library, Whitman File

Papers of Dwight D. Eisenhower as President of the United States, 1953–1961, maintained by his personal Secretary, Ann C. Whitman. The Whitman File includes the following elements: the Name Series, the Dulles–Herter Series, Eisenhower Diaries, Ann Whitman (ACW) Diaries, National Security Council Records, Miscellaneous Records, Cabinet Papers, Legislative Meetings, International Meetings, the Administration Series, and the International File.

List of Abbreviations and Symbols

Editor's Note—This list does not include standard abbreviations in common usage; unusual abbreviations of rare occurance which are clarified at appropriate points; and those abbreviations and contractions which, although uncommon, are understandable from the context.

A, airgram

ABC, Argentina, Brazil, Chile

AD, Acción Democrática (Democratic Action), a Venezuelan political party

AEC, Atomic Energy Commission

AFE, Administración de Ferrocarriles del Estado (State Railways Administration), Uruguay

AFL, American Federation of Labor

AFP (A&FP), American and Foreign Power Company

ANAC, Asamblea Nacional Constituyente (National Constitutent Assembly), Colombia

AR, Office of Regional American Affairs, Department of State

ARA, Bureau of Inter-American Affairs, Department of State

ARA/P, Public Affairs Adviser, Bureau of Inter-American Affairs

ASW, anti-submarine warfare

ATLAS, Asociación de Trabajadores de America Latina (Association of Latin American Workers)

AT.&T., American Telephone & Telegraph Company

BAEC, Buenos Aires Economic Conference

CA, Central America; circular airgram

CAB, Civil Aeronautics Board

CADE, Compañía Argentina de Electricidad (Argentine Electric Company)

CAP, Compañía de Acero del Pacifico (Pacific Steel Company), Chile

CCC, Commodity Credit Corporation, Department of Agriculture

CCT, Confederación Costarricense de Trabajadores (Costa Rican Confederation of Workers)

CEP, Chile, Ecuador, Peru

CFEP, Council on Foreign Economic Policy

CG, Consultative Group

CGT, Confederación General del Trabajo (General Confederation of Labor)

CIA, Central Intelligence Agency

CIC, Commission of Investigation and Conciliation, Organization of American States

CINCARIB, Commander in Chief, Caribbean

CIO, Congress of Industrial Organizations

cirtel, circular telegram

CMA, Compañía Mexicana de Aviación, S.A. (Mexican Aviation Company)

COAS, Council of the Organization of American States

COB, Central Obrera Boliviana (Bolivian Labor Central)

COCOM, Coordinating Committee of the Paris Consultative Group of nations working to control export of strategic goods to Communist countries
COMIBOL (CMB), Corporación Minera de Bolivia (Bolivian Mining Corporation)
CORFO, Corporación de Fomento de la Producción (Production Development Corporation), Chile
CPR, Committee of Presidential Representatives (of the Organization of American States)
CRS, Christian Relief Service
CSG, Consejo Sindical de Guatemala (Trade Union of Guatemala)
CTAL, Confederación de Trabajadores de America Latina (Confederation of Latin American Workers)
CTC, Confederación de Trabajadores de Cuba (Confederation of Cuban Workers)
CTM, Confederación de Trabajadores Mexicanos (Confederation of Mexican Workers)
CUTCH, Central Unica de Trabajadores de Chile (Central Workers Union of Chile)
D, member of the Democratic Party in the United States
DD/M, Office of the Deputy Director for Management, International Cooperation Administration
DD/O, Office of the Deputy Director for Operations, International Cooperation Administration
DD/P, Office of the Deputy Director for Programs and Planning, International Cooperation Administration
DD/S, Office of the Deputy Director for Technical Services, International Cooperation Administration
Del, delegate, delegation
Depcirtel, Department of State circular telegram
Deptel, Department of State telegram
DLF, Development Loan Fund (United Nations)
E, Assistant Secretary of State for Economic Affairs; Office of the Assistant Secretary of State for Economic Affairs
EA, Interdepartmental Committee on Economic Affairs
ECLA, Economic Commission for Latin America, United Nations
ECOAS, series indicator for telegrams to the U.S. Delegation, Economic Conference of the Organization of American States
ED, Investment and Development Staff, Office of Financial and Development Policy, Department of State
EDAC, Economic Defense Advisory Committee
Emb, Embassy
Embtel, Embassy telegram
ENAP, Empresa Nacional del Petróleo (National Petroleum Enterprise), Chile
EXIM Bank (Eximbank), Export-Import Bank of Washington
FBI, Federal Bureau of Investigation
FCN, Friendship, Commerce and Navigation (treaties)
FinMin, Finance Minister
FOA, Foreign Operations Administration
FonOff, Foreign Office
FRC, Federal Records Center
FSB, Falange Socialista Boliviana (Bolivian Socialist Falange)
FY, fiscal year
FYI, for your information
G, Deputy Under Secretary of State; Office of the Deputy Under Secretary of State
GATT, General Agreement on Tariffs and Trade
GMP, General Military Plan (for the defense of the American Continent)
GNP, gross national product
GOB, Government of Bolivia; Government of Brazil
GOC, Government of Chile, Government of Cuba
GOP, Government of Paraguay
GSA, General Services Administration
GUEST, Guest Aeróvias Mexico, Mexican National Airlines
H, Assistant Secretary of State for Congressional Relations; Office of the Assistant Secretary of State for Congressional Relations
HEW, Department of Health, Education, and Welfare

H.R., designation for legislation introduced in the House of Representatives

IAC, Intelligence Advisory Committee

IADB, Inter-American Defense Board

IA-ECOSOC, Inter-American Economic and Social Council

IAEA, International Atomic Energy Agency

IAGS, Inter-American Geodetic Survey

IAH, Inter-American Highway

IBRD, International Bank for Reconstruction and Development

ICA, International Cooperation Administration

ICBM, Intercontinential Ballistic Missile

IC/DV, Import Certificate-Delivery Verification

ICFTU, International Confederation of Free Trade Unions

ICJ, International Court of Justice

IFC, International Finance Corporation

IIAA, Institute of Inter-American Affairs

IL, International List (of embargoed goods)

ILO, International Labor Organization

IMF, International Monetary Fund

INFOP, Instituto de Fomento de la Producción (Production Development Institute)

INR, Bureau of Intelligence and Research, Department of State

IRBM, Intermediate-Range Ballistic Missile

IRCA, International Railways of Central America

IRD, International Resources Division, Bureau of Economic Affairs, Department of State

ISA, Assistant Secretary of Defense for International Security Affairs; Office of the Assistant Secretary of Defense for International Security Affairs

JBUSMC, Joint Brazil-United States Military Commission

JCS, Joint Chiefs of Staff

L/ARA, Office of the Assistant Legal Adviser for Inter-American Affairs; the Assistant Legal Adviser for Inter-American Affairs

LA, Latin America

LACSA, Líneas Aéreas Costarricenses (Costa Rican Airlines)

LORAN, Long Range Navigational Aid

LPG, Legislative Program Group, Department of State

MAAG, Military Assistance Advisory Group

MAP, Military Assistance Program

MC, Memorandum of Conversation

MDA, Mutual Defense Assistance

MDAC, Mutual Defense Assistance Control

MDAP, Mutual Defense Assistance Program

MDN, Movimiento Democrática Nacionalista (National Democratic Movement), a Guatemalan political party

MFN, most favored nation

MID, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State

mil, military

MinFin, Minister of Finance

MINMET, Minerales y Metales, S.A. (Minerals and Metals, Inc.), an Argentine mining company

MNR, Movimiento Nacionalista Revolucionario (Nationalist Revolutionary Movement), a Bolivian political party

MSA, Mutual Security Agency; Mutual Security Act

mytel, my telegram

MSP, Mutual Security Program

NAC, National Advisory Council

NATO, North Atlantic Treaty Organization

NCG, National Council of Government

niact, night action, communication indicator requiring attention by the recipient at any hour of the day or night

NIE, National Intelligence Estimate

NSC, National Security Council

OAS, Organization of American States

OCB, Operations Coordinating Board

ODECA, Organización de Estados Centroamericanos (Organization of Central American States)

ODM, Office of Defense Mobilization

ODVA, Organisme de Développement de la Valle de l'Artibonite Haiti (Artibonite Valley Development Agency of Haiti)

OFD, Office of Financial and Development Policy, Bureau of Economic Affairs, Department of State

OILA, Office of International Labor Affairs, Department of Labor

OISP, Overseas International Security Program

OR, Office of International Resources, Bureau of Economic Affairs, Department of State

ORIT, Organización Regional Interamericana de Trabajadores (Inter-American Regional Organization of Workers)

OSA, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State

OT, Office of International Trade, Bureau of Economic Affairs, Department of State

PC, participating country

PCB, Partido Comunista do Brasil (Brazilian Communist Party)

PEMEX, Petróleos Mexicanos, S.A. (Mexican Petroleum, Inc.)

PGT, Partido Guatemalteco de Trabajadores (Guatemalan Labor Party)

PL, Public Law

POL, petroleum, oil, and lubricants

PR, Partido Revolucionario de Guatemala (Guatemalan Revolutionary Party)

PRI, Partido Revolucionario Institutional (Institutional Revolutionary Party), Mexican political party

PRP, Partido de Representacao Popular (Popular Representative Party), Brazilian political party

PSD, Partido Social Democratico (Social Democratic Party), Brazilian political party

PTB, Partido Trabalhista Brasileiro (Brazilian Labor Party)

PURS, Partido Unión Republicana Socialista (Socialist Republican Union Party), Bolivian political party

R, Special Assistant for Intelligence, Department of State; Office of the Special Assistant for Intelligence, Department of State; member of the Republican Party in the United States

REA, Office of Inter-American Regional Economic Affairs, Bureau of Inter-American Affairs, Department of State

reftel, reference telegram

Rerum Novarum, a confederation of Costa Rican labor unions

RPA, Office of Inter-American Regional Political Affairs, Bureau of Inter-American Affairs, Department of State

S/AE, Special Assistant to the Secretary of State for Atomic Energy Matters

S/MSA, Special Assistant to the Secretary of State for Mutual Security Affairs

S/P, Policy Planning Staff, Department of State

S/S, Executive Secretariat, Department of State

SCISP, Servicio Cooperativo Interamericano de Salud Pública (Inter-American Cooperative Public Health Service)

SEATO, Southeast Asia Treaty Organization

Secto, series indicator for telegrams to the Department of State from the Secretary of State (or his delegation) at international conferences

SENDAS, Secretariado Nacional de Asistencia Social (National Secretariat of Social Assistance), Colombia

SHADA, Societé Haitiano-Americaine de Développement Agricole (Haitian-American Society for Agricultural Cooperation)

SN, Seguridad Nacional (National Security), Venezuelan internal security agency

SNIE, Special National Intelligence Estimate

SOAEC, series indicator for telegrams from the U.S. Delegation, Economic Conference of the Organization of American States

SOMISA, Sociedad Mixta Siderúrgica Argentina (Mixed Steel Company of Argentina)

TAC, Transit Authorization Certificate

Tosec, series indicator for telegrams from the Department of State to the Secretary of State (or his delegation) at international conferences

TRC, Office of Transport and Communications, Bureau of Economic Affairs, Department of State

U, Office of the Under Secretary of State

UDN, União Democrática Nacional (National Democratic Union), Brazilian polilical party

U/FW, Special Assistant to the Under Secretary of State for Fisheries and Wildlife

U/MSA, Special Assistant to the Under Secretary of State for Mutual Security Affairs

UNEF, United Nations Emergency Force

UNICEF, United Nations Children's Fund

UNTAA, United Nations Technical Assistance Administration

USA, United States Army

USAF, United States Air Force

USDel, United States Delegation

USIA, United States Information Agency

USIS, United States Information Service

USMC, United States Marine Corps

USN, United States Navy

USOM, United States Operations Mission

UTE, Administración General de las Usinas Electricas y los Telefonos del Estado (General Administration of State Electric Power and Telephone Services), Uruguay

W, Deputy Under Secretary of State for Economic Affairs; Office of the Deputy Under Secretary of State for Economic Affairs

XMB, Export-Import Bank of Washington

YPF, Yacimientos Petrolíferos Fiscales (National Petroleum Company)

YPFB, Yacimientos Petrolíferos Fiscales Bolivianos (Bolivian National Petroleum Corporation)

List of Persons

Editor's Note—The individuals identified below were principal participants in the events covered in this volume. Other officials and individuals not included in the list are identified in footnotes to the text at appropriate places. In general, persons attending but not participating in meetings, and those mentioned only in passing have not been identified. Identifications are limited to circumstances and positions under reference in this volume. All titles and positions are North American unless otherwise indicated. Wherever possible dates of tenure and the spelling of names follow the information provided in official publications of the countries concerned.

Achilles, Theodore C., Ambassador to Peru from July 24, 1956

Adams, Sherman, the Assistant to the President

Ageton, Arthur A., Ambassador to Paraguay until April 10, 1957

Aguilar Cornejo, David, Peruvian Minister of Foreign Affairs until December 24, 1955

Alkmin, José María, Brazilian Minister of Finance from January 31, 1956

Anderson, Dillon, Special Assistant to the President for National Security Affairs, April 2, 1955-September 1, 1956; White House Consultant from June 29, 1957

Anderson, Robert B., Deputy Secretary of Defense until August 4, 1955; Secretary of the Treasury from July 29, 1957

Andrade Uzquiano, Víctor, Brazilian Ambassador to the United States

Aramburu, Major General Pedro Eugenio, member, Argentine ruling military junta, September 21-November 13, 1955; thereafter, Provisional President and Chairman of the military junta

Araujo, Alfonso, Colombian Ambassador to the United Nations from September 1957

Arey, Hawthorne, Director, Export-Import Bank

Arias Espinosa, Ricardo M., President of Panama, January 15, 1955-October 1, 1956; Ambassador to the United States from December 1956

Arismendi, José Loreto, Venezuelan Minister of Education until February 1956; thereafter, Minister of Foreign Affairs

Armour, Norman, Ambassador to Guatemala until May 9, 1955

Armstrong, W. Park, Jr., Special Assistant to the Secretary of State for Intelligence until May 5, 1957

Armstrong, Willis C., Deputy Director, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State, January 15, 1955-June 1, 1957; Director, Office of International Resources, June 1-August 6, 1957; thereafter, Acting Deputy Assistant Secretary of State for Economic Affairs

Atwood, Rollin S., Director, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State, until October 10, 1955; Acting Regional Director for Latin American Operations, International Cooperation Administration, October 10, 1955-June 17, 1956; thereafter, Director

Barbosa Baeza, Enrique O., Chilean Minister for Foreign Affairs, January 1955-May 1956

Barnes, Robert G., Deputy Director, Executive Secretariat, Department of State, June 12-August 1, 1955; Director, Executive Secretariat, August 1, 1955-March 11, 1956; thereafter, Special Assistant to the Under Secretary of State for Mutual Security Affairs

Barrau Peláez, Manuel, Bolivian Foreign Minister from August 6, 1956

Barron Sánchez, Rear Admiral Emilio, Peruvian Minister of the Navy from July 1956

Batista y Zaldívar, Fulgencio, President of Cuba

Batlle Berres, Luís, member, National Council of Government of Uruguay from 1955; President of that Council, March 1955-March 1956

Beaulac, Willard L., Ambassador to Chile until May 28, 1956; Ambassador to Argentina from June 1, 1956

Beckmann, Conrado Carlos, Argentine Ministry of Foreign Relations; Secretary General of the Economic Conference of the Organization of American States, August 15-September 4, 1957

Belton, William, Officer in Charge of West Coast Affairs, Office of South American Affairs, Department of State, until January 30, 1956; Deputy Director, Office of South American Affairs, January 30-July 14, 1956; thereafter, Counselor, Embassy in Chile

Bennett, William Tapley, Jr., Special Assistant to the Deputy Under Secretary of State, August 9, 1955-September 8, 1957

Benson, Ezra Taft, Secretary of Agriculture

Berckemeyer, Fernando, Peruvian Ambassador to the United States

Bernbaum, Maurice M., Counselor, Embassy in Venezuela until September 2, 1955; thereafter, Director, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State

Betancourt, Rómulo, organizer and leader of the Acción Democrática political party in Venezuela; in political exile, 1948-1958

Bishop, Max W., Operations Coordinator, Department of State, until December 3, 1955

Black, Eugene R., President and Chairman of the Executive Directors, International Bank for Reconstruction and Development

Bonsal, Philip W., Ambassador to Colombia, April 1, 1955-April 24, 1957; Ambassador to Bolivia from May 10, 1957

Bowdler, William G., Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until July 18, 1956; Office of Inter-American Regional Political Affairs, July 18-October 17, 1956; Secretary, Inter-American Committee for Presidential Representatives of the Organization of American States, October 17-December 30, 1956; Vice-Consul, Embassy in Cuba, December 30, 1956- January 29, 1957; thereafter, Second Secretary and Consul

Bowie, Robert R., Director, Policy Planning Staff, Department of State, until October 18, 1957; Assistant Secretary of State for Policy Planning, August 10, 1955-October 18, 1957; Department of State member, National Security Council Planning Board, August 28, 1955-October 18, 1957

Boyd, Aquilino E., Panamanian Minister of Foreign Affairs from October 1956

Brand, Vance, member, Board of Directors, Export-Import Bank

Briggs, Ellis O., Ambassador to Peru, May 27, 1955-June 5, 1956; Ambassador to Brazil from July 24, 1956

Brownell, Herbert, Jr., Attorney General of the United States

Brundage, Percival F., Deputy Director, Bureau of the Budget, until April 1, 1956; Director from April 2, 1956; member, Advisory Board on Economic Growth and Stability, Council of Economic Advisers, from 1956

Burgess, W. Randolph, Under Secretary of the Treasury for Monetary Affairs until September 26, 1957; thereafter, U.S. Permanent Representative to the North Atlantic Treaty Organization

Burke, Admiral Arleigh A., USN, Chief of Naval Operations, Joint Chiefs of Staff, from August 17, 1955

Cabot, John M., Ambassador to Colombia from July 12, 1957

Cabell, General Charles P., Deputy Director for Central Intelligence

Café Filho, João, President of Brazil until November 8, 1955

Cale, Edward G., Director, Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until June 3, 1956; thereafter, Economic Counselor, Embassy in Argentina

Callanan, Paul E., International Resources Division, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State

Câmara, Mário, Brazilian Minister of Finance, October 1955-January 1956

Carías Castillo, Tiburcio, Jr., Honduran Ambassador to the United States from October 15, 1957

Carillo Flores, Antonio, Mexican Secretary of the Treasury and Public Credit

Carney, Admiral Robert B., USN, Chief of Naval Operations to August 1955

Castillo Armas, Colonel Carlos, President of Guatemala until July 26, 1957

Chapin, Selden, Ambassador to Panama until May 29, 1955

Chiriboga Villagómez, José Ricardo, Ecuadoran Ambassador to the United States until July 16, 1956; and again from December 19, 1956

Cisneros Sánchez, Manuel, Peruvian Premier and Minister of Foreign Affairs from July 2, 1956

Coll Benegas, Carlos, President, Banco de la Nación, Argentina; Chief of the Argentine Financial Mission to the United States, June-September 1956

Corbett, Jack C., Director, Office of International Financial and Development Affairs, Bureau of Economic Affairs, Department of State, until autumn of 1957

Corliss, James C., Acting Adviser and Alternate U.S. Representative, IA-ECOSOC until May 16, 1956; thereafter, Financial Adviser, Office of Inter-American Regional Economic Affairs, Bureau of Inter-American Affairs, Department of State

Corse, Carl D., Chief, Trade Agreements and Treaties Division, Bureau of Economic Affairs, Department of State, January 15, 1955-June 1, 1957; Acting Deputy Director, Office of International Trade, June 1-November 3, 1957; thereafter, Adviser, Office of International Trade

Cottrell, Sterling J., Officer in Charge of Brazilian Affairs, Bureau of Inter-American Affairs, Department of State, until July 17, 1955; detailed to the Naval War College, July 17, 1955-July 15, 1956

Cruz Salazar, Jose Luis, Guatemalan Ambassador to the United States

Cutler, Robert, Special Assistant to the President for National Security Affairs until April 1, 1955

Davis, Vice Admiral Arthur C., Deputy Assistant Secretary of Defense for International Security Affairs until October 1, 1955

Davis, Bainbridge C., Office of South American Affairs, Bureau of Inter-American Affairs, Department of State, until January 30, 1956; Officer in Charge of North Coast Affairs, January 30, 1956-December 1, 1957; thereafter, Consul at Colon

Davis, Roy Tasco, Ambassador to Haiti until March 9, 1957

de la Campa y Caraveda, Miguel Angel, Cuban Ambassador to the United States

Dearborn, Henry, Officer in Charge of River Plate Affairs, Office of South American Affairs, Department of State, unitl January 30, 1955; Deputy Director, Office of South American Affairs, January 30-December 31, 1955; thereafter, First Secretary and Counselor, Embassy in Peru

Dillon, C. Douglas, Deputy Under Secretary of State for Economic Affairs from March 15, 1957

Dodge, Joseph M., Special Assistant to the President and Chairman, Council on Foreign Economic Policy, until 1956

Dreier, John C., U.S. Representative with personal rank of Ambassador to the Council of the OAS until May 15, 1956; thereafter, Acting Director, Office of Inter-American Regional Political Affairs, Bureau of Inter-American Affairs, Department of State

Drew, Gerald A., Ambassador to Bolivia until April 6, 1957; Ambassador to Haiti from May 15, 1957

Dulles, Allen W., Director for Central Intelligence

Dulles, John Foster, Secretary of State

Dunn, James Clement, Ambassador to Spain, until February 9, 1955; Ambassador to Brazil, March 11, 1955-July 4, 1956

Duvalier, François, President of Haiti from October 22, 1957

Edgerton, Glen E., President, Chairman, and Managing Director of the Export-Import Bank until 1956

Eisenhower, Dwight D., President of the United States

Eisenhower, Milton, Special Ambassador and Personal Representative of the President on Latin American Affairs

Encisco Belloso, Guillermo, Paraguayan Ambassador to the United States until December 1956

Fábrega, Octavio, Panamanian Minister of Foreign Affairs until October 1956

Farland, Joseph S., Ambassador to the Dominican Republic from August 7, 1957

Fernándes, Raúl, Brazilian Minister of Foreign Affairs until November 12, 1955

Fignole, Daniel, Provisional President of Haiti, May 26-June 14, 1957

Figueres Ferrer, José, President of Costa Rica

Fishburn, John T., Labor Adviser, Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until September 8, 1957; thereafter, First Secretary and Labor Attaché, Embassy in Brazil

FitzGerald, Dennis A., Deputy Director for Operations, Foreign Operations Administration until June 30, 1955; thereafter, Deputy Director for Operations, International Cooperation Administration

Flemming, Arthur S., Director, Office of Defense Mobilization until February 1957

Flores Avendaño, Guillermo, Provisional President of Guatemala from October 27, 1957

Gray, Gordon, Assistant Secretary of Defense for International Security Affairs, July 14, 1955-February 27, 1957; Director, Office of Defense Mobilization from March 4, 1957

Guimoye Hernández, Emilio, Peruvian Minister of Finance and Commerce until December 24, 1955; Commercial Counselor, Peruvian Embassy in the United States from July 1956

Guizado Valdes, José Ramón, First Vice President and Foreign Minister of Panama until January 2, 1955; President of Panama, January 2-15, 1955

Gútierrez Gomez, José, Colombian Ambassador to the United States from June 1957

Hagerty, James C., Secretary to the President

Hanes, John W., Special Assistant to the Secretary of State until April 8, 1957; thereafter, Deputy Assistant Secretary of State for International Organization Affairs

Hanford, Colonel Thomas B., USA, Regional Director, Western Hemisphere, Office of the Assistant Secretary of Defense for International Security Affairs, from 1956

Harley, Charles R., Chief, Latin American Division, Office of International Finance, Department of the Treasury, from 1956

Harrington, Julian F., Ambassador to Panama from August 30, 1955

Hauge, Gabriel, Administrative Assistant to the President until 1957; Special Assistant to the President from 1957

Henderson, Loy W., Deputy Under Secretary of State for Administration from January 26, 1955

Hensel, H. Struve, Assistant Secretary of Defense for International Security Affairs until June 30, 1955

Herrera Palacios, Oscar, Chilean Minister of Education, January-August, 1955; Minister of Economy, August-October 1955; Minister of Finance and Economy, October 1955-August 1956

Herter, Christian A., Governor of Massachusetts until January 1957; Consultant to the Secretary of State, January 14-February 21, 1957; thereafter, Under Secretary of State

Hill, Robert C., Ambassador to El Salvador until September 21, 1955; Special Assistant to the Under Secretary of State for Mutual Security Affairs, October 12, 1955-March 9, 1956; Assistant Secretary of State for Congressional Relations, March 9, 1956-June 26, 1957; Ambassador to Mexico from July 25, 1957

Hilton, Ralph, Bureau of Inter-American Affairs, Department of State, until December 19, 1955; Policy Planning Adviser, Bureau of Inter-American Affairs, December 19, 1955-February 1, 1956; Special Assistant to the Assistant Secretary of State for Inter-American Affairs, February 1, 1956-February 10, 1957; thereafter, Counselor, Embassy in Paraguay

Holland, Henry F., Assistant Secretary of State for Inter-American Affairs until September 13, 1956

Hollister, John B., Consultant to the Secretary of State, May 2-July 1, 1955; Director, International Cooperation Administration, July 1, 1955-September 15, 1957

Hoover, Herbert, Jr., Under Secretary of State until February 5, 1957

Howe, Fisher, Deputy Special Assistant for Intelligence, Department of State, until March 12, 1956; thereafter, Director, Executive Secretariat

Hoyt, Henry A., Officer in Charge of Caribbean Affairs, Office of Middle American Affairs, Department of State, until August 12, 1956; detailed to the National War College, August 12, 1956-June 30, 1957; thereafter, Special Assistant to the Assistant Secretary of State for Inter-American Affairs

Hughes, Rowland R., Director, Bureau of the Budget, until April 1, 1956

Humphrey, George M., Secretary of the Treasury until July 28, 1957

Ibáñez del Campo, General Carlos, President of Chile

Irwin, John N., II, Deputy Assistant Secretary of Defense for International Security Affairs (Military Assistance Programs), from 1957

Izaguirre, General Carlos, Honduran Ambassador to the United States, May 5, 1955-May 1956

Jamison, Edward A., Deputy Director, Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until August 14, 1955; detailed to the National War College, August 14, 1955-July 29, 1956; thereafter, Counselor-Consul, Embassy in Costa Rica

Kalijarvi, Thorsten V., Deputy Assistant Secretary of State for Economic Affairs until March 14, 1957; Assistant Secretary of State for Economic Affairs, March 15-September 26, 1957; Ambassador to El Salvador from December 6, 1957

Kemper, James S., Ambassador to Brazil until January 26, 1955

King, Spencer M., Special Assistant, Office of the Assistant Secretary of State for Inter-American Affairs, August 14, 1955-August 25, 1957; thereafter, detailed to the National War College

Krieg, William L., Counselor, Embassy in Guatemala until January 16, 1955; Special Assistant to the Assistant Secretary of State for Inter-American Affairs, January 16-August 14, 1955; detailed to National War College, August 14, 1955-July 16, 1956; Deputy Director, Office of Inter-American Regional Political Affairs, Department of State, from July 16, 1956; also in charge of Public Relations Affairs of that Office from December 19, 1956

Kreiger Vasena, Adalberto, member of the Argentine Financial Mission to the United States, June-September 1956; Argentine Minister of Finance from March 1957

Kubitschek de Oliveira, Juscelino, President of Brazil from January 1956

Laferrère, Alfonso de, Argentine Ambassador to Chile until January 1956; Argentine Minister of Foreign Affairs from January 1957

Lay, James S., Jr., Executive Secretary of the National Security Council

Lechín Oquendo, Juan, Bolivian labor leader, Executive Secretary of the Bolivian Workers Confederation; Vice President of Bolivia and President of the Bolivian Senate from August 6, 1956

Leddy, John M., Office of the Assistant Secretary of State for Economic Affairs until October 3, 1955; Special Assistant to the Assistant Secretary of State for Economic Affairs, October 3, 1955-October 20, 1957; Adviser to the U.S. Delegation to the Economic Conference of the Organization of American States; Special Assistant to the Deputy Under Secretary of State for Economic Affairs from October 20, 1957

Léger, Jacques, Haitian Ambassador to the United States

Leonhardy, Terrace G., International Relations Officer, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State, from July 17, 1955

Lezama, Arturo, President of the National Council of Government of Uruguay from March 1, 1957

Lleras Camargo, Alberto, President of Colombia, 1945-1946; Secretary General of the Organization of American States, 1947-August 1, 1954; Head of the Colombian Liberal Party, 1956–1957

Llosa, Admiral Luis Edgardo, Naval Attaché, Peruvian Embassy in the United States; Foreign Minister, December 24, 1955-June 1956

Lodge, Henry Cabot, Jr., the Permanent Representative of the United States at the United Nations

Lonardi, Major General Eduardo A., Provisional President of Argentina, September 21-November 13, 1955

Lozano Díaz, Julio, Honduran Head of State until October 21, 1956

Lyon, Cecil B., Deputy Assistant Secretary of State for Inter-American Affairs, June 28, 1955-May 10, 1956; Ambassador to Chile from June 15, 1956

MacArthur, Douglas, II, Counselor of the Department of State until November 24, 1956

Macy, Robert M., Chief of the International Division, Bureau of the Budget

Magloire, Paul E., President of Haiti until December 12, 1956

Mann, Thomas C., Counselor, Embassy in Guatemala, September 16, 1954-November 24, 1955; Ambassador to El Salvador, November 24, 1955-September 24, 1957; Assistant Secretary of State for Economic Affairs from September 30, 1957

McConnell, James A., Assistant Secretary of Agriculture until 1956

McGinnis, Edgar L., Jr., Office of South American Affairs, Bureau of Inter-American Affairs, Department of State, until June 30, 1956

McGuire, E. Perkins, Deputy Assistant Secretary of Defense for International Security Affairs, January-December 1956; thereafter, Assistant Secretary of Defense for Supply and Logistics

McIntosh, Dempster, Ambassador to Uruguay until April 3, 1956; Ambassador to Venezuela, April 26, 1956-December 27, 1957

Meany, George, President of the American Federation of Labor-Congress of Industrial Organizations

Memminger, Robert B., Counselor, Embassy in Panama until November 6, 1955; Officer in Charge of Central American and Panamanian Affairs, Bureau of Inter-American Affairs, Department of State, November 6, 1955-July 1, 1956

Meyer, Joaquín, Financial Counselor, Cuban Embassy in the United States and Representative of the Cuban Sugar Stabilization Institute

Miller, Edward G., Jr., Assistant Secretary of State for Inter-American Affairs, June 28, 1949-December 31, 1952

Mills, Sheldon T., Ambassador to Ecuador until April 6, 1956

Minnich, L. Arthur, Jr., Assistant Staff Secretary in the White House

Monsma, George N., Officer in Charge of International Organization Affairs, Department of State, until May 16, 1956; Officer in Charge, Inter-American Organizations, Office of Inter-American Regional Political Affairs from May 16, 1956

Mora, José A., Uruguayan Ambassador to the United States until April 1956; thereafter, Secretary General of the Organization of American States

Morse, True D., Under Secretary of Agriculture

Mulliken, Jean H., Officer in Charge, Commodities and Commercial Policy, Office of Regional American Affairs, Department of State

Muniz, João Carlos, Brazilian Ambassador to the United States until June 1956; thereafter, Ambassador to Argentina

Murphy, Robert D., Deputy Under Secretary of State for Political Affairs

Myers, Lawrence, Director, Sugar Division, Department of Agriculture

Neal, Jack D., Deputy Director, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State, until May 6, 1956; then Director, May 6, 1956-May 5, 1957; thereafter, Counselor, Embassy in Peru

Newbegin, Robert, Director, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State, until May 6, 1956; thereafter, Deputy Assistant Secretary of State for Personnel

Nichols, Clarence, W., Deputy Director, Office of International Minerals Policy, Department of State, until January 15, 1955; Chief, International Resources Division, January 15, 1955-October 1, 1956; Deputy Director, Office of

International Trade and Resources, October 1, 1956-June 1, 1957; thereafter, Deputy Director, Office of International Resources

Nixon, Richard M., Vice President of the United States

Nolan, Charles P., Officer in Charge, Transportation and Communications, Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until July 15, 1956; thereafter, First Secretary-Commercial Attaché, Embassy in Argentina

Nolting, Frederick E., Jr., Special Assistant to the Secretary of State for Mutual Security Affairs until September 25, 1955

Nufer, Albert F., Ambassador to Argentina until May 12, 1956

O'Conner, James F., Jr., Office of South American Affairs, Bureau of Inter-American Affairs, Department of State, until October 2, 1955; thereafter, Second Secretary of the Embassy in Argentina

O'Connor, Roderic L., Special Assistant to the Secretary of State until December 1, 1955; Deputy Assistant Secretary of State for Congressional Relations, December 1, 1955-May 28, 1957; Administrator, Bureau of Security and Consular Affairs from May 28, 1957

Odría y Amoretti, Manuel A., President of Peru until July 28, 1956

O'Ryan, Admiral Juan Francisco, Chilean Minister of Defense, January 1955-October 1957; thereafter, Minister of the Interior

Osorio, Lieutenant Colonel Oscar, President of El Salvador until September 14, 1956

Otáñez, Aureliano, Venezuelan Minister of Foreign Affairs until February 1956

Overby, Andrew N., Assistant Secretary of the Treasury until February 28, 1957

Patterson, Jefferson, Ambassador to Uruguay from May 2, 1956

Paz Estenssoro, Víctor, President of Bolivia until August 6, 1956

Paz, Hipólito Jesús, Argentine Ambassador to the United States until October 1956

Pearson, Norman, Staff Assistant to the Assistant Secretary of State for Inter-American Affairs until January 29, 1956; thereafter, First Secretary and Consul, Embassy in Uruguay

Peixoto, Ernai Amaral do, Brazilian Ambassador to the United States from July 1956

Pérez Jiménez, General Marcos, President of Venezuela

Perón, Juan Domingo, President of Argentina until September 22, 1955

Pheiffer, William T., Ambassador to the Dominican Republic until June 2, 1957

Phleger, Herman, Legal Adviser of the Department of State to April 1957

Pierre-Louis, Joseph Nemours, Haitian President of the Court of Cassation; President of Haiti, December 13, 1956-October 22, 1957

Ploesser, Walter C., Ambassador to Paraguay from November 6, 1957

Podestá Costa, Luis A., Argentine Minister of Foreign Affairs, November 1955-January 1957

Ponce Enríquez, Camilo, President of Ecuador from June 3, 1956

Prado Ugarteche, Manuel, President of Peru from July 28, 1956

Prat Echaurren, Jorge, Chilean Minister of Finance until February 1955

Prebisch, Raúl, Argentine Economist; Executive Secretary, United Nations Economic Commission on Latin America (ECLA)

Prochnow, Herbert V., Deputy Under Secretary of State for Economic Affairs, November 7, 1955-November 11, 1956

Puga Vega, Mariano, Chilean Ambassador to the United States from March 1957

Radford, Admiral Arthur W., USN, Chairman of the Joint Chiefs of Staff until August 14, 1957

Radius, Walter A., Special Assistant to the Deputy Assistant Secretary of State for Economic Affairs until July 15, 1956

Randall, Clarence B., Special Consultant to the President; Chairman, Council on Foreign Economic Policy, from July 10, 1956

Randall, Harold M., Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until August 22, 1955; thereafter, United States Representative to the Inter-American Economic and Social Council of the Organization of American States, with personal rank of Ambassador

Ravndal, Christian M., Ambassador to Ecuador from August 29, 1956

Remón Cantera, Colonel Jose Antonio, President of Panama until assassinated on January 2, 1955

Remorino, Jerónimo, Argentine Minister of Foreign Affairs and Worship until August 1955

Richards, Arthur L., Operations Coordinator, Office of the Under Secretary of State, from January 16, 1956

Robinson, Hamlin, Special Assistant to the Director, Office of International Financial and Development Affairs, Bureau of Economic Affairs, Department of State, until March 18, 1956; Special Assistant, Office of the Deputy Under Secretary of State for Economic Affairs, March 18, 1956-spring 1957; thereafter, Special Assistant, Office of the Assistant Secretary of State for Economic Affairs

Rockefeller, Nelson A., Special Assistant to the President until December 31, 1955; Vice Chairman (representing the President), Operations Coordinating Board, 1955–1956

Roderick, George H., Assistant Secretary of the Army for Financial Management until 1955, and again from 1957; Assistant Secretary of the Army for Civil-Military Affairs, 1955–1957

Rodriquez Altamirano, Mario, Chilean Ambassador to the United States, February 1956-March 1957

Rojas, Rear Admiral Isaac Francisco, Provisional Vice President of Argentina, September 25-November 13, 1955; thereafter, Vice President and member of the Junta

Rojas Pinilla, General Gustavo, President of Colombia until May 10, 1957

Rompani, Santiago I., Uruguayan Foreign Minister, March 1955-May 1956

Rosenson, Alexander M., Chief, Monetary Affairs Staff, Department of State, until June 3, 1955; Attaché, Embassy in Chile, June 3-July 5, 1955; First Secretary and Consul, July 5, 1955-January 1, 1956; Office of Regional American Affairs, Department of State, January 1-May 16, 1956; thereafter, Officer in Charge of Economic Development, Office of Inter-American Regional Economic Affairs

Rowell, Edward J., Counselor, Embassy in Bolivia, until July 21, 1955; Officer in Charge of Brazilian Affairs, Bureau of Inter-American Affairs, Department of State, July 21, 1955-October 21, 1956; thereafter, Officer in Charge of Social Affairs, Office of International Economic and Social Affairs

Rowntree, R. Henry, Chief, Economics Division, Export-Import Bank, from 1956

Rubottom, Roy R., Jr., Counselor of the Embassy and Deputy Chief of the U.S. Operations Mission (USOM) in Spain until April 24, 1955; Director of the USOM in Spain and Embassy Counselor, April 24, 1955-May 16, 1956; Deputy Assistant Secretary of State for Inter-American Affairs, May 16-September 14, 1956; Acting Assistant Secretary, September 14, 1956-June 18, 1957; thereafter, Assistant Secretary

Ruiz Cortines, Adolfo, President of Mexico

Sainte Marie Sorucco, Osvaldo, Chilean Minister of Mines, January 1955-May 1956; Minister of Foreign Affairs, May 1956-April 1957; Minister of Foreign Affairs and Mines, April-October 1957

Salazar, Joaquín E., Dominican Ambassador to the United States, February 21, 1955-May 1957

Saldías, Admiral Roque A., Peruvian Minister of the Navy and President of the Council of Ministers until December 24, 1955; Premier and Minister of Finance and Commerce, December 24, 1955-July 2, 1956

Sánchez Quell, Hipólito, Paraguayan Minister for Foreign Affairs until May 1956

Sanders, Terry B., Jr., Policy Coordinator, Department of State, until August 14, 1955; Officer in Charge, Inter-American Security and Military Assistance Affairs, Bureau of Inter-American Affairs, August 14, 1955-July 1, 1956; thereafter, Deputy Director, Office of South American Affairs

Sapena Pastor, Raúl, Paraguayan Minister of Foreign Affairs from June 1, 1956

Sauer, Walter C., Executive Vice President of the Export-Import Bank

Sayre, Robert M., Office of Regional American Affairs, Department of State, until June 18, 1956; Acting Officer in Charge, Inter-American Security and Military Assistant Affairs, June 18, 1956-July 28, 1957; thereafter, Second Secretary, Embassy in Peru

Scott, Walter K., Director, Executive Secretariat, Department of State, until August 1, 1955; thereafter, Deputy Director for Management, International Cooperation Administration

Sevilla-Sacasa, Guillermo, Nicaraguan Ambassador to the United States

Seybold, Brigadier Geneneral John S., Governor of the Panama Canal Zone until May 1956

Shepherd, General Lemuel C., Jr., USMC, Commandant of the Marine Corps until retirement, January 1, 1956; Chairman, Inter-American Defense Board from March 1956

Silberstein, Joseph A., Financial Officer, Embassy in Chile, until January 15, 1956; Office of South American Affairs, Department of State, January 15-November 4, 1956; thereafter, Officer in Charge of West Coast Affairs, Office of South American Affairs

Siles Zuazo, Hernán, Vice President of Bolivia until August 6, 1956; thereafter, President of Bolivia

Siracusa, Ernest V., First Secretary and Counselor, Embassy in Argentina, until January 15, 1956; Office of South American Affairs, Department of State, January 15-30, 1956; Officer in Charge of West Coast Affairs, January 30-November 4, 1956, thereafter, Officer in Charge of Brazilian Affairs

Smathers, George A., Democratic Senator from Florida; member, Senate Finance Committee and Senate Interstate and Foreign Commerce Committee

Smith, Earl E. T., Ambassador to Cuba from July 23, 1957

Snow, William P., Minister-Counselor, Embassy in Mexico, until June 16, 1957; thereafter, Deputy Assistant Secretary of State for Inter-American Affairs

Somoza García, Anastasio, President of Nicaragua until September 29, 1956

Southard, Frank A., Jr., Special Assistant to the Secretary of the Treasury and U.S. Executive Director, International Monetary Fund

Sowash, William P., Office of Middle American Affairs, Department of State, until September 23, 1955; Officer in Charge, Central American and Panamanian Affairs, September 23, 1955-December 16, 1956; thereafter, Second Secretary, Embassy in Spain

Sparks, Edward J., Deputy Assistant Secretary of State for Inter-American Affairs until June 14, 1955; Ambassador to Guatemala from July 29, 1955

Spencer, George O., Special Assistant for Inter-American Military Affairs, Office of Regional American Affairs, Department of State, until September 4, 1955; thereafter, First Secretary, Embassy in Brazil

Sprague, Mansfield D., General Counsel, Department of Defense until February 14, 1957; thereafter, Assistant Secretary of Defense for International Security Affairs

Staats, Elmer B., Executive Officer, Operations Coordinating Board

Stambaugh, Lynn U., Deputy Director, Export-Import Bank, until 1955; First Vice President and Vice Chairman, Export-Import Bank, from 1955

Stassen, Harold E., Director, Foreign Operations Administration, and Chairman, Foreign Operations Council, until June 30, 1955; Special Assistant to the President from March 19, 1955

Stewart, C. Allan, First Secretary and Consul (also Counselor from February 23, 1955), Embassy in Costa Rica until November 4, 1956; thereafter, Deputy Director, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State

Stroessner, Alfredo, President of Paraguay

Sylvain, Frank, Provisional President of Haiti, February 7-April 2, 1957

Tello Baurraud, Manuel J., Mexican Ambassador to the United States

Tittmann, Harold H., Jr., Ambassador to Peru until March 30, 1955

Trujillo Molina, Hector B., Generalissimo, President of the Dominican Republic

Trujillo Molina, Rafael L., Generalissimo, President of the Dominican Republic, May 18, 1942-August 16, 1952; Secretary of State for Foreign Relations, March-August 1953; Commander in Chief of the Armed Forces, 1958

Turkel, Harry R., International Economist, Office of Regional American Affairs, Department of State, September 28, 1955-January 12, 1956; Acting Director, Office of Regional American Affairs, January 12-May 6, 1956; Director, May 6-16, 1956; thereafter, Director, Office of Inter-American Regional Economic Affairs

Twining, General Nathan F., USAF, Chief of Staff of the Air Force until July 1, 1957; Special Assistant to the Secretary of Defense, July 1-August 14, 1957; Chairman, Joint Chiefs of Staff from August 15, 1957

Urrutía Holguín, Francisco, Colombian Ambassador to the United Nations until September 1957; Representative to the Security Council, 1957; President of that Council, August 1957; Ambassador to the United States, November 10, 1955-September 1957

Urzúa Merino, Eduardo, Chilean Minister of Finance from August 1956

Vaky, Viron P., Second Secretary and Consul, Embassy in Argentina until September 11, 1955; thereafter, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State

Vallarino, Joaquín José, Panamanian Ambassador to the United States, April 1, 1955-December 1956

Vallenilla Lanz, Laureano, Venezuelan Minister of Interior

Velasco Ibarra, José María, President of Ecuador until August 31, 1956

Vicchi, Adolfo Angel, Argentine Ambassador to the United States, October 1956-June 1957

Villeda Morales, Ramón, Honduran Ambassador to the United States, January-September 1957; President of Honduras from December 21, 1957

Wainhouse, David W., Deputy Assistant Secretary of State for United Nations Affairs until September 11, 1955; Attaché, Embassy in France, September 11-30, 1955; First Secretary and Consul of that Embassy, September 30, 1955-July 20, 1956; Acting Deputy Assistant Secretary of State for International Organization Affairs, July 20-October 7, 1956

Wardlaw, Andrew B., First Secretary-Consul, Embassy in Paraguay, until March 19, 1957; thereafter, Officer in Charge, North Coast Affairs, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State

Warren, Fletcher, Ambassador to Venezuela until March 24, 1956

Watrous, Livingston D., International Relations Officer, Department of State, from May 19, 1955

Waugh, Samuel C., Assistant Secretary of State for Economic Affairs until August 25, 1955; Deputy Under Secretary of State for Economic Affairs, August 26-October 1, 1955; President and Chairman of the Board of Directors, Export-Import Bank, from October 4, 1955

Weeks, Sinclair, Secretary of Commerce

Whelan, Thomas E., Ambassador to Nicaragua

Whitaker, José María, Brazilian Minister of Finance, April-October 1955

White, Francis, Ambassador to Mexico until June 30, 1957

Whiteman, Marjorie M., Assistant Legal Adviser for Latin American Affairs, Department of State

Wieland, William A., First Secretary-Consul, Embassy in Ecuador, until April 11, 1955; Counselor of that Embassy, April 11, 1955-February 10, 1957; Special Assistant for Public Affairs, Bureau of Inter-American Affairs, Department of State, February 10-May 19, 1957; thereafter, Director, Office of Middle American Affairs

Williams, Philip P., Special Assistant on Technical Assistance, Office of Inter-American Regional Economic Affairs, Bureau of Inter-American Affairs, Department of State, from spring 1956

Willis, George H., Director, Office of International Finance, Department of the Treasury

Wilson, Charles E., Secretary of Defense until October 8, 1957

Wilson, Brigadier General James K., Jr., USA, Director, Office of Military Assistance Programs, Department of Defense, 1955–1956; Director, Office of Programs and Control, Department of Defense, 1956–1957

Wisner, Frank G., Deputy Director for Plans, Central Intelligence Agency

Yadarola, Mauricio Luis, Argentine Ambassador to the United States from August 1957

Ydígoras Fuentes, General Miguel, Presidential candidate in Guatemalan election of October 20, 1957; President of Guatemala, 1959–1962

Zéphirin, Mauclair, Haitian Foreign Minister, 1955; Ambassador to the United States, 1956–1957

Zuleta Angel, Eduardo, Colombian Ambassador to the United States until October 1955

CENTRAL AMERICA

UNITED STATES POLICY REGARDING POLITICAL DEVELOPMENTS IN THE CENTRAL AMERICAN AREA[1]

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[1] For documentation on this subject, see volume VI.

COSTA RICA

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND COSTA RICA[1]

1. Editorial Note

Vice President Richard M. Nixon visited Costa Rica February 21–23, 1955, as part of a tour of Central America and the Caribbean. On February 21, in a speech at a luncheon attended by Nixon, President José Figueres Ferrer expressed appreciation for the activities of the United Fruit Company in Costa Rica. A copy of Figueres' speech was forwarded to the Department of State under cover of a letter from Ambassador Woodward, dated March 8, in which he explained the background of the speech. Describing a discussion between Figueres and himself, Woodward wrote the following:

"President Figueres said that he had been wanting to make some statement in favor of the Company in the present [United States Department of Justice] anti-trust suit and he went on to mention his view that the large size of the Company was a great asset in stabilizing prices for bananas. When the Chairman of the Businessmen's Committee and I invited President Figueres to make some remarks at the luncheon, I reminded him of this comment he had made several weeks before and commented that the very representative group of 200 leading Costa Rican and American businessmen might afford ideal audience for any reassuring statements that he felt he could make of interest to businessmen or potential foreign investors." (Department of State, Costa Rica Desk Files: Lot 57 D 15, United Fruit Co., 1955) Additional documentation concerning Nixon's visit to Costa Rica is *ibid.,* Central File 033.1100–NI.

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[1] Continued from *Foreign Relations,* 1952–1954, vol. IV, pp. 818 ff.

2. Despatch From the Ambassador in Costa Rica (Woodward) to the Department of State[1]

No. 607

San José, April 26, 1955.

SUBJECT

Study on Possibilities and Requirements for U.S. Assistance to Costa Rica in Dealing with Communist Subversion

I. State of Development of Threat of Subversion

Communism does not pose a present threat to the stability of the Costa Rican government due to the general opprobrium with which it is regarded by the people; the small number of party militants; lack of funds to operate; and the fact that the Constitution outlaws the Communist Party.

However, communism presents a potential danger because of its concentration on the laboring class and because there is an ever-present hard core of militants. Labor leaders are being sent to the Soviet Union and satellite countries for training. . . . some communists intend to organize guerrilla warfare in case of a general war.

. . . has recently supplied the following strength data for the "front" organization, Partido Vanguardia Popular and its satellite organizations:

1. PVP:
    (a) Militants—200
    (b) Sympathizers—10,000
2. National Committee of Partisans of Peace—8 members
3. General Confederation of Costa Rican Workers
    (a) Claimed—4,829
    (b) Probable—approximately 2,000
4. Alliance of Costa Rican Women—claimed 506

Despite the relative modesty of the membership figures listed above, three members of the Confederation of Workers took labor training courses in Hungary in 1954, and two members of the PVP Political Commission made trips to Moscow. Two additional labor leaders recently departed for the labor school, and the PVP's President, Manuel Mora Valverde, is now believed to be in Moscow.

Reliable . . . sources reveal that PVP and its affiliated organizations are extremely short of funds and have been consistently reduced to disposing of assets left to the Party from its prosperous days during the Calderon Guardia and Picado governments.[2]

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[1] Source: Department of State, Central Files, 718.5/4–2655. Top Secret; Limit Distribution.

II. Adequacy of Indigenous Countermeasures

(a) Recognition of Threat and Will-to-Act on the Part of the Local Government

While the government of José Figueres Ferrer is controversial, the bulk of its followers are believed to be genuinely anti-communist. Figueres consistently preaches against communism and points to his 1948 revolution which dislodged the commies from their powerful position in President Picado's government. This anti-communist line is favored by most of the population, which suffered under communist rule for a short time before the 1948 revolt.

Figueres professes to be very pro-United States and his government generally supports us in the United Nations, OAS and other international bodies.

Figueres made himself suspect when he continued to support the Arbenz[3] regime in Guatemala long after it was dominated by communists. It took considerable pressure to induce Figueres to turn against Arbenz and support the U.S. move to hold the Rio de Janeiro conference of Foreign Ministers to discuss the Guatemalan situation. Figueres supported the U.S. when we had trouble finding countries which would sponsor the proposed meeting, but this also was at a time when he was deep in difficulties with Nicaragua and desperately needed U.S. arms to bolster his defenses. There is little evidence Figueres thinks much of Castillo Armas[4] and the feeling is reciprocated, although the relations between the governments seem to have improved lately as evidenced by a desire to sign a trade agreement.

On the other hand, Costa Rica's conduct in the case of two notorious Guatemalans whose extradition was sought by the Castillo Armas government merits mention. Aníbal Mejia Morales, chauffeur for Col. Francisco Arana, assassinated in 1949 at Arbenz' orders, was permitted to enter Costa Rica from El Salvador under an assumed name. Costa Rican officials claimed to be unable to locate this individual, who was later aided in obtaining a Salvadoran passport by Col. Marcial Aguiluz, one of Figueres' closest advisers. By means of this passport he left the country under an assumed name.

The other case is that of Major Alfonso Martínez, head of the Arbenz agrarian reform program and the man who is generally believed to have arranged for delivery of the shipload of arms from behind the Iron Curtain to Guatemala. Martínez arrived incognito from San Salvador, where the Guatemalan government permitted him to go on safe conduct, when it was learned Guatemala planned to seek his extradition from there. He was met by Bernardo Montes de Oca, a Foreign Office official, and was registered by him in a San José hotel under an assumed name. When Guatemala filed notice that it planned to begin extradition proceedings in Costa Rica against Martínez (as well as Mejía), Martínez took asylum in the Ecuadoran Legation. He was finally permitted to depart for Quito under a very elastic interpretation of international agreements on asylum.

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[2] Rafael Angel Calderón Guardia, President of Costa Rica from 1940 to 1944. Teodoro Picado, President of Costa Rica May 1944–May 1948.

[3] Jacobo Arbenz Guzman, President of Guatemala March 1951–June 1954.

[4] Carlos Castillo Armas, President of a military junta which governed Guatemala after July 1954; he was President of Guatemala September 1954–July 1957.

Recently, local newspapers stated that Col. Francisco Cosenza Gálvez, implicated in the January, 1955, plot against the Castillo Armas regime, was given "temporary permission" to remain in Costa Rica.

On the other side of the coin, there is evidence Castillo Armas provided aid to the revolutionaries who attempted to overthrow Figueres last January.

Renato Delcore, new Costa Rican Ambassador to Guatemala, issued an encouraging statement before his departure on April 25 for Guatemala. "I leave with the best intentions of bettering the good relations which exist between the peoples and governments of Guatemala and Costa Rica," he said, adding that he was instructed to conclude the trade agreement and cooperate in preparations for the Odeca meeting in Guatemala, which is scheduled for July.

Since coming into power in November, 1953, the government has not taken any serious steps to combat communism, perhaps because the commies have presented no grave problem. The Communist Party is outlawed by the Costa Rican Constitution but President Figueres may feel that to harass the commies now would drive them deeper underground, whereas at present they have their heads just under the surface, where their general movements can be observed.

A bill to outlaw communists from holding posts in the labor unions was introduced in 1954 by the Figuerista President of the National Assembly, Gonzalo Facio, but it has not come up as yet for debate.

In summary it can be said that the government appears to have some recognition of the communist threat, but has made no move to stamp out the movement completely.

In event the communist-dominated unions in the Pacific banana zone ever threaten a general strike, we will be able to judge better what is the Figueres regime's will-to-act against the commies. It is in this zone that the communists have their greatest strength and where they are concentrating their Budapest-trained labor leaders.

(b) Capabilities of Indigenous Forces

(1) For Police-Type, Preventive Activities, including:

(a) The Detection of Communist Agents, Fellow-Travelers, Front Organizations and Other Components of the Communist Apparatus:

> The Costa Rican government, under the Ministry of Public Security, has extremely limited and inadequate forces for combatting communist activities. The Office of Investigation Coordination (Oficina de Coordinación de Investigaciones, the G–2 Section of the General Staff), and the Directorate General of Detectives (Dirección General de Detectives), are headed by fairly capable officers with natural ability as investigators but they have only a handful of men working under them and are handicapped also by limited funds. The directors, while enthusiastic, lack training and their sources of information are casual; no adequate filing system is maintained, and they have no penetrations of the communist apparatus.

(b) The Detention of Communist Personalities or Groups:

> The police forces of Costa Rica are handicapped in arresting communists because of the protection afforded the individual in the Costa Rican Constitution. While the Communist Party is outlawed, its members cannot be arrested unless caught in delicto flagrante. Since the government possesses only a limited force of intelligence agents and detectives, it is rarely possible to catch communists redhanded. The communists have the same recourse to the habeas corpus as any other citizen.

(c) The Execution of Judicial Measures Against These Persons or Groups:

> Because of the nature of local laws and the Constitution it is extremely hard to find an occasion when judicial action has been taken against a communist, or even to uphold the authorities in the exceptional cases in which they have confiscated communist propaganda. Even if judicial action is taken against the offenders, penalties are so light that little good is done.
>
> However, it should not be too difficult to suppress communist publications, which speak for an outlawed party. Here again, the government probably figures that the hue and cry of the comrades against suppression of freedom of expression outweighs the advantage of confiscating publications with limited circulation. The opposition is quick to accuse the government of limiting freedom of expression if it even complains about lies and canards that would be considered as "license" or even libelous in other countries.

(d) The Application of Limited Force:

> The application of limited force against the communists would be well within the capabilities of the government if this could be based on correct intelligence (at present beyond their

capabilities), legal authority (non-existent except in cases of civic disturbances), and if the public were convinced that communism constituted a present menace. The bulk of the Costa Rican people are unsympathetic to the use of force by the authorities, and unless conditioned to it by a strong propaganda campaign would react vigorously against it.

(2) For Military-Type Action:

The present Costa Rican Guardia Civil, Resguardo Fiscal and Reserve of Volunteers is adequate to cope with internal insurrection but would be valueless against external aggression. It seems unlikely that internal insurrection on the part of the communists will take place in the foreseeable future because of the Party's lack of numbers. Any uprising by the communists would change an apathetic public opinion overnight into one of vigorous opposition to them. The communists realize that their sorry performance from 1940–48 makes them suspect and therefore will probably attempt no uprisings except in the remote event of a major world holocaust.

(c) Support of Countermeasures by Local Population

The Costa Rican people are without doubt anti-communist. It is probable that they would support any activities which would increase the government's potential in the fields of anti-communist intelligence activities, the detention of communists, and the execution of judicial measures against communists. It is doubted however that they would support the application of force against the communists unless previously conditioned. In every case, steps would have to be taken to insure that the rights of the ordinary citizens are protected. The question of increasing the armed power of the existing forces or of increasing the strength of these forces would be far more controversial. The United States has already been subjected to considerable criticism by the constitutional opposition for selling arms to the government. Any additional action taken in this regard would arouse another storm of criticism by the opposition, who fear that the government may use its armed power to carry out fraudulent elections in 1958.

However, a strengthening of the Costa Rican armed forces in a manner that might elicit only a minimum of criticism has been suggested in Embassy's Despatch 562 of April 12, 1955,[5] and which will be described below.

III. Analysis of Local U.S. Programs of Assistance Which Support, or Could be Adjusted to Support, Indigenous Countermeasures Outlined in II, Above.

a. FOA

1. None at present, except in the sense that the entire FOA

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[5] Not printed. (Department of State, Central Files, 718.5/4–1255)

program is designed to improve Costa Rican living standards and undermine residual susceptibility to alien ideologies.

2. Experts could be brought in under FOA auspices to train local intelligence-type agencies. Members of these organizations could be sent to the United States for training.

b. U.S. Military Mission

1. Presently charged with the training of the Guardia Civil.

2. Training of a MDAP unit following signing of a Military Assistance Agreement with Costa Rica. The Embassy in its Despatch 562 had advanced the idea of a reinforced engineering battalion, utilizing partly present Guardia Civil personnel and about 400 additional personnel. This would be a highly mobile unit using few weapons not now in possession of the government. It would be available for valuable peacetime duties, such as building roads, bridges, airports, irrigation projects, and at the same time for protecting the country from invasion; guarding important defense installations; protecting and maintaining the Inter-American Highway, and as the nucleus of a force to maintain internal peace in time of war.

This program would presumably require the addition of personnel to the Mission and an increase in the number of Costa Rican military personnel sent to the U.S. Army Caribbean Command School at Fort Gulick, Canal Zone, and other armed forces installations.

c. USIA

1. Is presently doing an excellent job of presenting anti-communist material to the Costa Rican public.

2. In event it were necessary to mobilize Costa Rican public opinion against communism, the USIA program should be increased. However, the general lack of sympathy for communism in Costa Rica is such that an expanded program is not necessary at this time.

. . . .

e. Embassy

1. Coordinates all phases of anti-communist activity through the Ambassador, including exchange of information with the Costa Rican government under Resolution 93 of the Caracas Conference.

2. Through its daily contacts with government officials and Costa Ricans in general, the Embassy could discreetly urge a revision of the Constitution to restrict communist travel, increase penalties

against subversive activity as well as enactment of the legislation in Congress eliminating communists from holding office in unions.

V. Recommendations

Communist subversion of the Costa Rican government is not likely at this time. The government attitude toward the communist menace is reasonably firm and there is no indication at this time that there is any connection between the government and the communists. The public in general is anti-communist but not militantly so. In event of a communist attempt to take over in Costa Rica, or even to participate openly in politics, a strong and effective countermovement could be encouraged by a stepped up publicity campaign . . . .

For the time being, the following recommendations are made:

. . . .

b. The government should be urged to maintain closer surveillance over communists and prosecute them more vigorously. This would be made more possible by implementing Recommendation(a).

c. The government should be influenced to amend the Constitution to limit the travel of communists, increase penalties for subversive activities and enact proposed legislation eliminating communists from union leadership.

d. Maintenance of the present . . . USIA programs to condition the public to the communist menace. A gradual stepping up of this program could be undertaken in the future, placing emphasis on the necessity of increased security measures. The recent cooperation of the Embassy and the Ministry of Foreign Affairs regarding the commie-supported Sixth Congress of Teachers in Montevideo is an example of the current approach (see Embassy's Despatch 552 of April 1, 1955 and Despatch 570 of April 15, 1955[6]).

e. Eventual signing of a Military Assistance Agreement with Costa Rica and supplying of MDAP aid for a reinforced engineering battalion. Discussion of an agreement and of formation of a hemispheric defense unit should not be inaugurated until tension among Costa Rica and Nicaragua, Venezuela and other strong-man governments is eased somewhat further and the subject thoroughly explored with other American Embassies in affected countries.

An engineering unit seems the most practical as it would require little armament not now in the hands of the Costa Rican government. Putting these weapons in the hands of a unit pledged solely for hemispheric defense or against invasion should calm the internal opponents of the regime, as well as neighbors. An engineering unit, available for quick repairs of the Inter-American Highway in event of bombing or sabotage due to large scale world hostilities should be welcomed by Central American countries as long as President Figueres or his successors demonstrate that they will not engage in any further adventures which disturb the peace in the Caribbean area.[7]

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[6] Not printed. (*Ibid.*, 718.5/4–1555)

The Department's comments on these recommendations would be appreciated.

Robert F. Woodward

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[7] In despatch 357 from San José, December 20, Woodward informed the Department of State of some changes in the text of despatch 607, which brought it up to date. In presenting these alterations, the Ambassador wrote: "Since it is understood that the OCB may soon consider the views expressed by this Embassy and related agencies in Embassy Despatch 607 of April 26, 1955, the Embassy wishes to state that the opinions set forth are still valid and can be updated to the present. However, recommendation (e) on page 8 [on military assistance] should be held in abeyance for the present." (*Ibid.*, 718.5/12–2055)

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3. Letter From the Ambassador in Costa Rica (Woodward) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

San José, October 27, 1955.

DEAR HENRY: During the period that you have been Assistant Secretary, some extraordinary improvements have taken place in the relationships between the United Fruit Company and the Governments and workers of the countries in which the Company operates. In fact, I would say that there has been more improvement during this period than in any other period twice or three times as long. You know the great importance of this to United States relations as a whole in the banana-producing countries and in the rest of Latin America, but I believe that few people in the United States realize the extent to which the Company and its reputation is symbolic of the United States to thousands and thousands of people in Latin

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Costa Rica. Official–Informal. A cover letter of the same date from Woodward to Holland is not printed. In that letter the Ambassador wrote he understood Holland was contemplating showing a Woodward letter of October 6 to officials of the United Fruit Company. Woodward suggested substituting the October 27 letter because it reflected later developments in Costa Rica. (*Ibid.*) On November 10, Holland forwarded Woodward's October 27 letter to Kenneth H. Redmond, President of the United Fruit Company. (*Ibid.*, Nicaragua–Costa Rica Desk Files: Lot 57 D 15, Costa Rica, 1955—United Fruit Company)

America. As a curious example of this, Monge[2] told Alex Cohen[3] and me the other day that when ORIT was inclined to let up on its criticism of the Fruit Company, the ORIT affiliates in Uruguay and Chile accused ORIT of being too soft.

The reason I am writing to you is that it seems to me that such a good foundation has now been laid by the Company that, by the concerted exertion of the ingenuity that must be possessed by the splendid brains in the Company, the Company could at comparatively little additional expense gain Hemisphere-wide reputation for being "out in front" in constructive labor and public relations rather than always appearing to be fighting a "rear guard action" and getting a bad press in return for the really formidable concessions it has made. You may be able to encourage thinking in this vein in your conversations with Company officials. Certainly there is no effort that could contribute more to the reputation of the United States in Latin America, and particularly in the Caribbean area.

I have just returned from a visit to the Pacific banana zone with President Figueres and a couple dozen other people. The visit had for its ostensible purpose the showing of serious interest in the plight of the victims of the recent record floods. Actually the trip must have impressed everyone, as it did me, with the extent to which the Costa Ricans are fortunate to have a huge company absorb so much of the cost of damage from a natural disaster of this kind and keep all of the flood victims who are employees on the payroll. President Figueres, however, seemed primarily preoccupied with the prospective loss in tax revenues (possibly close to US $1 million) in the face of emergency public works expenses in other parts of the country, widespread crop damage that will increase Government expenses and decrease revenues, and the expected short coffee crop. Those on the tour therefore witnessed the remarkable spectacle of Figueres asserting to several large groups of workers that they have an important stake in the stability of the Company's operations, because the Government is a "partner" of the Company to the extent of 30% of the profits, and because this tax yield is the source of eventual social and economic benefits to the workers (provided the Government can get around to distributing a significant amount of this yield in the banana zone!). Figueres asserted that, while the workers are "free agents," he believed the workers should sign the collective agreement with the Company that has been offered to the workers in the Golfito Division (following the settlement on the Laurel farms), because this agreement will give the Government and the Company the stability they need to engage in improvements for the workers. (On October 27, the Company had obtained 6700 signatures barely exceeding the 6600 majority required to put the agreement into effect in the Golfito Division.) Figueres condemned the communist leaders and advocates of strikes as "anti-worker" and anti-Government because of their irresponsibility in bringing about losses, and he asserted that it is immoral to follow a communist labor leader unless one is prepared to accept a communist government and all the loss of liberty that would imply.

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[2] Luis Alberto Monge Alvarez, Secretary-General of Government in Figueres' administration from July 1955 to May 1956. During this period he was on leave from his position as Secretary-General of the Inter-American Regional Organization of Workers (ORIT).

[3] Alex A. Cohen, consul and attaché in the Embassy in Costa Rica.

It is clear that Figueres has metamorphosed almost completely from a couple of years ago, in his attitude toward the Company. This has been due to a number of factors. One is the extraordinary ability and perspective of Walter Hamer, the Manager of the Compañía Bananera. (I believe, incidentally, that the Company would profit substantially from giving him increasingly greater authority. He combines in his thinking a more realistic and farsighted evaluation of all the factors in the Company's production problems and more ability to get along with foreign officials than any other Fruit Company officer I have known.) Another factor has been the increasing ability and breadth of vision of the Fruit Company directors and officers in the United States; I only wish that they could take turns of several months apiece to live in the producing areas, steep themselves at first-hand in the problems, and put the full weight of their intellects to farsighted solutions. Still another factor that has helped much here was the pressure exerted by Bob Hill in 1954 for negotiation of the new contract and the ingenuity of Allan Stewart in suggesting the procedure. Moreover, during the past year, I think we have been able to accomplish something with persistent if inconspicuous conversation and nudging of a type to which Figueres seems much more susceptible than he does to obvious argument and emphasis. The visit that Vice President Nixon and you made here offered a very fine opportunity for some helpful statements by President Figueres which he cooperatively made, as you will recall. But perhaps the most important factor of all in changing the attitude of Figueres has been the increased tax returns (about 8% of total governmental revenues in 1954[4]) to which, it is apparent, he and the Government attribute a very great importance. Of course, one must bear constantly in mind that large concessions have been made by the Company and by the U.S. Treasury to the producing countries.

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[4] This is about 50% of all *income taxes* received by the Costa Rican Government. [Footnote in the source text.]

Summing up the gains to date, in simplest terms, the direct operations of the Company in operating banana plantations in Costa Rica have at long last become evaluated by the Costa Rican Government for near their true importance to the Costa Rican economy, both as a method of cushioning the economic shock of natural disasters (which can be expected with altogether too great frequency) and as insuring the Government a handsome tax revenue which it would never be able to collect from individual domestic growers who might produce the same bananas with Company technical advice, spraying, irrigation, etc. (in fact, these individual domestic growers would be mostly in lower tax rate brackets anyhow).

(You may recall the paper on the subject of a tax study that I sent you months ago.[5] In the light of the great importance the Costa Rican Government is attributing to the present tax revenues, if they should ever get any higher proportion of the taxes one can conjure up a very curious imaginative picture of the way the Costa Ricans might in the future struggle to keep the Company in direct plantation operations even though the Company might wish to transfer many of the present risks to domestic growers under cooperative schemes of the kind it now uses in part! For this reason, I would think that it would be of value to the Company to get the Government even more deeply involved in the "partnership" in this way, and I am somewhat baffled by the Company's lack of interest in this idea.)

However, to get back to the main point of this letter, the foundation is now sufficiently soundly established, so I believe the Company can with relatively little expense (1) get its relationship with labor on a more secure and sound basis in Costa Rica and (2) begin to win the reputation of being "out in front" in constructive labor and international relations (a) by a few relatively simple and superficial human-interest frills for the workers that may have a large psychological effect and (b) by frankly taking advantage of some of the Figueres' pet ideas on this subject in order to bring him to the point where he will become a Hemisphere-wide public relations agent for the Company.

With respect to labor relations, only a few weeks ago we were deeply concerned about the possibility of an impasse in the labor negotiations at Laurel which might have resulted in the abandonment by the Chiriqui Land Company of those eleven farms and, worse, might have resulted in the extension of the strike to the operations of the Compañía Bananera divisions. Fortunately, a settlement was reached, with a substantial number of small concessions made to the 1600 workers. We thought that the communist leadership would loudly take credit for the concessions obtained; instead, they loudly advertised the settlement as a defeat, and the communist party removed the communist labor leader, Marchena,[6] from leadership of the FOBA labor confederation in the banana zone for an indefinite period.

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[5] Not found in Department of State files.

Even assuming that the removal of Marchena from the leadership of the FOBA federation may be only temporary, this constitutes a very unexpected opportunity for the Company, the Costa Rican Government, and the non-communist labor organization to try to wean away Marchena's followers. We have discussed with all of the interested parties, at various times, possible methods of taking advantage of this opportunity. The Company—at least, its officials in Costa Rica both in the producing zone and in San José—now appears definitely desirous of having a responsible non-communist labor organization with which it can deal in the future. We have been urging Monge, the Costa Rican who seems to be taking the most active detailed interest in the problem, to find some really competent leadership that can compete with the FOBA leadership. Although the man that Monge and the Rerum Novarum organization[7] now have in mind does not appear to be conspicuously able, he might be able to make some progress if he receives some subtle help from the Company. He is a Señor Alvaro Rojas Rojas, who is a former employee of the Compañía Bananera (and not remembered as a particularly outstanding one) and who is now in charge of the Materials and Supply Department of the Pacific Railway and a member of the Rerum Novarum union of Public Works employees. Alex Cohen and I think that the Rerum Novarum organization should be able to find a more competent leader or leaders among the workers in the Golfito Division, and I heard and saw a couple of workers who made speeches during the rallies, in the course of the recent visit of President Figueres to the banana zone, who I believe might be better candidates than Rojas. This is a matter on which I would assume the Company would wish to apply itself urgently and seriously with Monge and Rerum Novarum if they really wish to take advantage of the present unique opportunity.

As a stop-gap arrangement, pending the possible eventual development of an acceptable non-communist labor organization in the banana zone that can really compete with FOBA and eventually put it out of the running, the Government is sending additional labor inspectors into the area. The purpose is to try to make certain that the workers who do not follow the communist leadership of FOBA will receive at least as much attention to their complaints and grievances as the FOBA workers do. To make this arrangement more effective—if this is to be a relatively permanent procedure rather than to try seriously and energetically to develop a strong non-communist union—I have suggested to President Figueres, the Labor Minister, Monge, Walter Hamer, and Mr. Bump, in various conversations, that any labor leader who is not a worker be required to bring any grievance or complaint to the labor inspectors rather than directly to the Company. (The communist labor leaders are *not* workers.) The Company naturally wishes to preserve the practice of encouraging workers to bring complaints directly to their supervisors so that grievances can be settled by the simplest possible procedure. No change in this practice would need to be made under a strict rule that labor leaders who are *not* workers must present their grievances to the labor inspectors, and this procedure would enable the labor inspectors to make certain that the communist leaders do not get preferential attention to their complaints by virtue of more efficient and persuasive presentation. Conversely, the labor inspectors could actually assist the less competent non-communist complainants.

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[6] Isaias Marchena Moraga, Secretary-General of the Costa Rican Banana Workers' Federation (FOBA).

[7] The Rerum Novarum was a confederation of Costa Rican labor unions.

Even if a strict rule of this kind were not to be applied by the Government and the Company, I would think that the same fundamental idea could be put into practice—probably even more effectively—by the Company itself, if it decided unqualifiedly to do so. Heretofore, there has been a natural tendency on the part of the Company officials to give more attention to complaints presented by labor leaders who make efficient and systematic presentations and in a manner which creates a minimum of friction. Marchena has been very skillful in making his presentations in this way, and the only non-communist leader of any consequence in the banana zone, Juan Rafael Solis B., leader of the "independent" Fetraba union (who was receiving Costa Rican Government support up until July), happens to be an inefficient and unreliable person with an irritating personality. Fortunately, Solis is also being relieved of his position of leadership. Even though his substitute, or the leader of some new labor organization that may be started by Rerum Novarum in the banana zone, may not turn out to be an outstanding leader, it seems to me that the Company would find it advantageous to do everything possible to help this new leadership become an outstanding success in competition with the FOBA leadership. Even if the Company had to employ some additional personnel to exert special zeal in attending to the complaints and grievances which may be presented from now on through any non-communist labor organization in the banana zone, I would think that the Company would find it advantageous to go this extent to set up effective competition to FOBA.

In fact, going even further, I believe that it might be a very good idea for the Company actually to work out carefully coordinated arrangements with the new non-communist labor leadership by which these leaders could gather support rapidly through being able to show concrete improvements they have been able to gain from the Company from time to time. The officers of the Company frequently, of course, have ideas of their own concerning new improvements and these improvements are often put into effect on the Company's initiative. Even at the cost of some loss of direct credit to the Company for taking such initiative, any new improvements could be carried out ostensibly as concessions to the non-communist labor leaders in order to make their leadership more attractive to the workers. For example, during the recent visit of President Figueres to the banana zone, he personally observed some seriously over-crowded conditions of a kind that the Company will undoubtedly plan to correct in the near future. The construction of additional quarters at certain farms, which may be necessary anyhow, could be carried out as a concession to the non-communist labor leadership. If additional quarters are constructed at certain other farms, it would be possible to give further credit to these non-communist leaders, and, at the same time, to make a great hit with President Figueres, if some single-family houses were built of a kind that Walter Hamer says are now being built in Guatemala. President Figueres happens to be very much taken with this idea. Of course, Figueres also likes to have the Government get credit for persuading the Company to make improvements, but he would, I believe, be willing to cooperate in using the "credit" for improvements for the purpose of building up the non-communist labor organization.

Another pet idea of President Figueres from which the Company could get a substantial amount of good-will very economically, is the simple idea of encouraging the workers to install flower pots around their somewhat barren-appearing dwellings. Incidentally, the President mentioned this so many times in the course of his tour through the banana zone that the Company could probably get a very disproportionate amount of good-will by even consulting him personally concerning various styles and methods of encouraging individual initiative in "flower-potting". The Fruit Company might be inclined to do this on a modern, streamlined basis but they could no doubt win more good will by consulting Figueres and using the styles associated with Figueres' own small-town memories.

Anyone who is aware of the great expense to the United Fruit Company from a natural disaster such as the recent floods in the banana zone would be very hesitant to urge the Company to engage in any large new expenditures at this time to improve the living standards of the employees. Moreover, anyone who has traveled about the banana zone cannot help but be impressed with the fact that the Company's workers undoubtedly live in circumstances that are a substantial improvement over the living conditions they would otherwise have. (President Figueres, in fact, pointed this out to the largest meeting of workers he addressed on his recent visit to the banana zone in the Coto Section of the Golfito Division. He pointed out that virtually no one was living in the Pacific banana zone 20 years ago, and he posed the rhetorical question: Why did these people leave their former homes in Guanacaste, Nicaragua, Panama, and the Meseta Central? He then answered the question by saying that they had left their former homes because conditions were worse in the places from which they came! Moreover, wages are so comparatively high in the banana zone that, for the first time, the Company has a surplus of candidates for employment.) In these circumstances it would now be logical to suggest additional expenditures for the improvement of living conditions of the workers only in modest amount (a) which could reasonably be expected to forestall future Company losses through work stoppages or slow-downs, (b) which might be worthwhile, conversely, as probably stimulants to greater productivity, (c) which could be carefully calculated to be worth the additional expenditure for purposes of improving even further the relationship between the Company and the Government, and (d) which, in the particular instance of the Costa Rican Government, would take advantage of the present very important trend of President Figueres to become the best advertising agency that the United Fruit Company could find in Latin America. These gains, if they can be attained economically, should be worth quite a lot to the Company and to the United States as a whole.

Specifically, I believe that the Company would be taking advantage of an extraordinarily valuable opportunity if Walter Hamer were to be authorized to go over the plans of new houses with President Figueres, deliberately planning to adopt a few of President Figueres' suggestions concerning small changes in design, as well as discussing with President Figueres such ideas as some system by which the occupants of Company houses can have some voice in the selection of a variety of attractive new colors of paint for the houses they occupy, the styles of flower pots, as mentioned in a preceding paragraph, and such other matters as the selection of some new varieties of wood-stoves (an item purchased individually by workers) and devices for piping the smoke out of kitchens, etc. The Company might even be able to devise some workable ideas for "employee participation" in the beautification and improvement of their houses—even to the point of substantial savings in labor costs for such functions as painting, etc.

Please excuse the length of this letter but I hope you will find it useful.

With best wishes,

Sincerely,

Bob

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4. Editorial Note

In a memorandum to Under Secretary of State Hoover, August 9, 1956, Rubottom, Acting Assistant Secretary of State for Inter-American Affairs, summarized a report on Costa Rica prepared by the Operations Coordinating Board (*infra*) for the National Security Council pursuant to NSC Action No. 1290–d, dated December 22, 1954. Rubottom concluded his memorandum with the recommendation that the Under Secretary move approval by the OCB of the paper on the internal security situation in Costa Rica. (Department of State, OCB Files: Lot 62 D 430, Latin America, 1956) The Rubottom memorandum and a copy of the OCB paper on Costa Rica were forwarded to the Under Secretary under cover of a memorandum dated August 13, prepared in the Office of the Operations Coordinator. The memorandum of August 13 concurred with the recommendation that the Under Secretary move approval of the OCB paper and its implementation under the supervision of the Director of the International Cooperation Administration, John B. Hollister. (*Ibid.*)

The OCB held its regular weekly meeting on August 15 with Dillon Anderson, the President's Special Assistant for National Security Affairs, acting as chairman and Deputy Under Secretary of State Robert Murphy representing the Department of State. A memorandum of this meeting, prepared by Landreth Harrison of the Office of the Operations Coordinator, includes the following summary of the deliberations on the Costa Rica paper:

> "This paper was discussed at some length, particularly Paragraph 47. The Acting Chairman raised the questions as to the nature and cost of the proposed survey. Mr. Murphy commented that the estimated $50–60,000 included only $6–8,000 as the cost of the survey itself and the remaining amount was the estimated costs of training Costa Rican personnel in Costa Rica and in the United States, and the cost of providing necessary equipment to Costa Rican security forces. Mr. Anderson thought that Paragraph 47 should be rephrased to reflect this. Mr. Wyeth for Defense [George A. Wyeth,

Jr., of the Office of Operations Coordinating Board Affairs of the Department of Defense] raised the question of the priority of a Costa Rican program stating that Defense felt that available personnel could be used to better advantage elsewhere. Mr. Allen Dulles said that three priorities were involved in 1290–d activities, namely (a) preparation of papers, (b) examination on the spot of needs, and (c) implementation of individual countries in relation to the others. Mr. Murphy suggested that the survey should be made, spending only the required amount of money, and then the other questions should be examined. Selected timing should be used.

"It was agreed to approve the paper and authorize the survey, but that no further action should be authorized at the present time." (*Ibid.*)

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5. Paper Prepared by the Operations Coordinating Board[1]

Washington, August 15, 1956.

ANALYSIS OF INTERNAL SECURITY SITUATION IN COSTA RICA AND RECOMMENDED ACTION

I. Nature of the Security Threat

1. The Costa Rican Communist Party (Partido Vanguardia Popular—PVP), does not now constitute a threat to the stability of the Government of President Jose Figueres.

2. The PVP has an estimated dues-paying membership of less than 300, half of whom live in San Jose. There are about 2,000 *active* sympathizers (estimates of "sympathizers" run as high as 10,000), of whom the majority live in the banana zone on the Pacific coast south of the capital. Here the degree of their "sympathy" varies with changing labor conditions.

3. The PVP reached its peak between 1940 and 1943 when it was closely allied with the Calderon and Picado administrations, had five members in the national legislature, and developed an independent voting strength of some 20,000. It fought in the 1948 civil war alongside the Calderon–Picado forces and after their defeat by the Figueres forces, the PVP was outlawed and virtually disintegrated.

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Latin American, 1956. Top Secret. A cover sheet and transmittal note by Charles E. Johnson, Executive Assistant of the OCB, September 15, are not printed. The transmittal note reports that at its August 15 meeting the Board approved the paper and authorized the preliminary survey recommended in paragraph 47, but agreed that no further action would be authorized immediately.

Popularly discredited because of its activities in 1948 and before, it now has no known significant representation or allies in the government including its security forces, and has but a small and indirect influence in national affairs.

4. Organized labor support of the Calderon and Picado regimes within Costa Rica was closely identified with the communists. However, it is unlikely that the Calderonista leadership, now anticommunist, would again recognize any overt alliance with the PVP. Within Costa Rica the Calderonista party (Independent National Republican Party) has only three Assembly members, and was further discredited by the failure of an invasion attempt in January, 1955, when most Costa Ricans rallied behind the government.

5. The current PVP program reflects careful study of the international communist line, and specifically, of the Brazilian Communist Party program. It calls for the development of a "National Democratic Front" based on the class alliance of the workers, the peasants, the petty bourgeoisie, and the intellectuals, and is designed to exploit their respective nationalistic, anti-imperialist potentialities. The replacement of the Figueres Government is called for as a product of the "politico-electoral action of all the forces of opposition"—violence being rejected *unless* the Government "violates freedom of suffrage."

6. The immediate objectives of the program include the consolidation of the parties of opposition to the Figueres regime into a political alliance. Although a legal PVP is regarded as the essential "backbone" of a National Democratic Front, certain top party leaders are currently minimizing the campaign for legalization out of fear of provoking repressive action, and advocate the formation of local "democratic fronts" in which the communists, for the present, would play a participant role, but not necessarily a controlling role.

7. To such an anti-Figueres alliance, the PVP would be able to contribute the organizational ability of its trained leaders, the support of its labor following, and the element of proletarian representation required to characterize a government as "democratic". It is unlikely that the other anti-Figueres parties will enter into such an alliance with the PVP. However, political opportunism may keep them from actively opposing communist infiltration into their anti-Figueres campaigning, but even this degree of infiltration would not provide the communists either in an opposition or a resulting government with an effective voice in Costa Rican affairs.

8. The PVP has extensive, continuing international contacts. Trade union information is supplied regularly to the World Federation of Trade Unions through the Confederation of Latin American Workers (Confederacion de Trabajadores de la America Latina—CTAL), and relations with communists in Mexico are maintained

both through deviously-directed correspondence and resident liaison in Mexico. Soviet and other communist literature is regularly sent to Costa Rica from abroad. The PVP leaders themselves are able and experienced, some having been associated with organizational and doctrinal work in other countries and with the CTAL.

9. The PVP's President, Manuel Mora Valverde, was party delegate to the XX Congress of the Communist Party of the Soviet Union. A Costa Rican communist women's leader, Adela Ferreto de Saenz, has recently been selected to head the Latin American section of the Women's International Democratic Federation in East Berlin. Five members of the Party's National Political Commission visited Moscow for periods of up to three months between 1952 and 1955. During 1954 and 1955, 14 members traveled to congresses or attended schools behind the Iron Curtain. Over 30 trips to communist-front conferences in Europe and China have been made by Costa Rican communists and pro-communists since 1949. Much of this travel has been financed by international communist or communist-front funds.

10. The training and indoctrination received by PVP leaders abroad is being used in an effort to strengthen party organization and discipline in Costa Rica. A campaign to recruit by the end of 1955, 225 new militant members, who would receive a preparatory course in principles of communist party organization, was initiated in mid-year. Recruiting committees were named for the various provinces. This campaign was not successful. A new campaign has been started but results thus far have been negligible.

11. The PVP has two regular publications: *Adelante,* an eight-page tabloid, a legal organ calling itself "an independent weekly", sold to PVP militants and to anyone else who wishes to buy it; and *Correo Semanal,* a four-page leaflet-size clandestine publication, for use and distribution by PVP militants. *Adelante* costs the Party approximately $30 per week for 3,000 copies, and *Correo Semanal* approximately $6.00 per week for 1,000 copies. Their sale is intended to cover the cost of publishing, but payments are usually in arrears, and the deficit is taken from party funds. These funds are obtained from the monthly dues of militants, voluntary contributions by sympathizers, and the earnings of small clandestine party investments.

12. Labor is the PVP's chief operational target. The communist-controlled but legal General Confederation of Costa Rican Workers (Confederacion General de Trabajadores Costarricenses—CGTC), is affiliated with the Confederation of Latin American Workers and the World Federation of Trade Unions (WFTU). It nominally controls 21 of the country's 70 registered unions or about 2,000 or approximately 25% of organized workers, but control is probably effective over

only a small percentage of the nominal membership. The communists are most effective in the banana zone, where the communist-controlled Banana Workers' Federation (Federacion Nacional de Obreros Bananeros y Anexos—FOBA) led a three-week strike against the United Fruit Co. in September 1955. The PVP was able to collect only $271 nationwide in support of the strike, and the FOBA's secretary-general, Isaias Marchena Moraga, was expelled from the Federation and the party for his alleged cowardice in settling the strike. The communists have less fertile soil in which to sow discontent now that the United Fruit Co. and the government have reached an agreement increasing to 30% the tax the company pays on its earnings. This tax constitutes approximately 8% of government revenues. The CGTC is also being challenged by the larger anti-communist labor group, the Costa Rican Confederation of Workers (Confederacion Costarricense de Trabajadores—Rerum Novarum—CCT) whose leadership in the past has been relatively ineffective. In July 1955 a bill to make it illegal for communists to hold office in labor unions was sidetracked in a committee of the Assembly.

13. The PVP is well organized; it meets regularly in the homes of members, but its internal financial resources are minimal. Foreign travel, however, is financed from communist funds from abroad.

II. Existing Internal Security Forces and National Military Forces

A. Primary Internal Security Forces

14. In the Ministry of Public Security the staff offices engaged in combatting Communist subversion are The Office of Investigation Coordination (Oficina de Coordinacion de Investigaciones, the G–2 Section of the Ministry), and the Directorate General of Detectives (Direccion General de Detectives). These offices are headed by fairly capable and enthusiastic directors who have natural ability as investigators but lack training. They have only a handful of subordinates, their sources of information are casual, they have not penetrated the Communist apparatus, they have no adequate filing system and their funds are limited.

15. Under the Minister of Public Security public order is the responsibility of the Civil Guard (Guardia Civil), assisted by the Directorate General of Detectives and the Directorate General of Traffic Police. A small Revenue Guard (Resguardo Fiscal) handles customs responsibilities and is equipped to supplement the Civil Guard in case of emergency.

16. The Civil Guard strength is approximately 1,400. Personnel in San Jose, the capital, approximately 900, are in 3 companies. Remaining officers and men are distributed to six command head-

quarters in outlying provinces, each headquarters having slightly less than 100 men. Crime incidence in Costa Rica is very low, and thus there is no need to maintain more than skeletal police forces.

17. In early 1954, a Reserve of Volunteers was organized. At one time an estimated 1900 men were actively participating in a Reserve Training Program formed into 9 battalions and 28 skeletal companies. Lack of funds and equipment has lessened participation to the extent that the Reserve is currently ineffective as a ready force. Plans to rejuvenate the Reserve await budgetary consideration by the legislature.

18. Military training of the Civil Guard is under the supervision of a United States Army Mission and includes weapons and basic recruit instruction, and a little training in small unit tactics. The Guardsmen are fairly well trained in the use of firearms, those in San Jose being somewhat better trained than those in the provinces. The U.S. Mission also supervises operation of the Civil Guard Military School, a center for recruit training and instruction of officers in handling small bodies of troops. On February 12, 1956 this school was closed because of lack of funds. There is now no officer instruction and recruits are trained in their parent units. Information indicates that the school will open when funds are again available. Costa Rica takes advantage of opportunities to send individuals to military schools in Latin American and some European countries.

19. Ordnance matériel is miscellaneous and obsolescent except for small arms purchased from the U.S. in mid-1954. In this shipment, Costa Rica received 3,500 M–1 rifles, 500 Thompson SMGs, and a few machine guns, rocket launchers and mortars, plus ammunition for all weapons. Supplies of small arms are more than adequate to equip the present force and are stored at armories in San Jose, and in Civil Guard headquarters in the provinces.

20. Although primarily a police force, the Civil Guard is capable of coping with riots and internal insurrection with the aid of the Revenue Guard and personnel from the Reserve of Volunteers.

21. Weaknesses lie in the detection and investigation of communist activity (which are beyond present capabilities), in the absence of legal authority to move against communists (except in the context of civil disturbances) and in the fact that the bulk of the people do not see communism as a menace and are unsympathetic to the use of force by the authorities.

B. Military Forces

22. Costa Rica has no Army or Navy. An Air Force was recently established and consists at present of 13 pilots and 4 aircraft. All pilots are employed by Costa Rica's national airline and are automat-

ically in the Air Force Reserve. Aircraft include 3 F–51 propellor-driven fighters and 1 light liaison craft. The air facility system is sufficient to meet local needs and includes one airfield, El Coco near San Jose, capable of handling heavy bombers and jet fighters.

III. Evaluation of the Internal Security Situation

23. The current Costa Rican government, chosen by two-thirds of the voters in a relatively free election, follows the democratic traditions of the country. The legal non-communist opposition groups within the country—landowners, merchants, importers—while they operate freely, are in a divided minority and are not vigorously led. They have the outlet of a free press, in which they can and do criticize Figueres and his policies forcefully. It is not probable that they will resort to violence to unseat him.

24. Outside Costa Rica, exiled followers of former Presidents Calderon and Picado, who enjoy the sympathy of the Nicaraguan and Venezuelan regimes, still constitute a threat which cannot be altogether ignored. But for numerous reasons an invasion is now much less likely. The exiles are scattered in Venezuela, Mexico and Nicaragua, and their morale has suffered from the failure of their invasion attempt in January 1955. Also, in January 1956 Nicaragua and Costa Rica agreed to surveillance of their common frontier, with a permanent outside committee of five nations, including the U.S., in readiness for investigations and conciliation. The Organization of American States (OAS) stands ready to turn a spotlight on any invasion. In December 1955 an Amnesty Law was passed which should encourage exiles to return legally. Furthermore, landings on the Atlantic coast would place attackers in an unfavorable strategic position and the Air Force can now put three F–51's into the air. On balance, therefore, it appears probable that the Calderonistas will prefer to await the February 1958 elections, seeking to oust the Figueristas by legal means.

25. The Costa Rican Communist Party is small and its finances are chronically in bad shape; it has no known representation or allies of significance in the government or security forces, has not succeeded in forming an alliance with any other party, and is held in low esteem by the public. Its capabilities for influencing national affairs are therefore low. The party may be able on occasion to create limited disturbance in the banana zone, but is incapable of overthrowing the government.

26. The government is opposed to communism in principle but neither it nor the public is militantly anti-communist. This current climate of opinion operates against the fullest enforcement of existing legislation against communists. Only if communist subversive activity should markedly increase would the government and people

be sufficiently aroused to the threat of international communism to take effective measures to control it.

27. The security services, because of inadequate staff, funds and training, lack the capabilities for the detection and investigation of communist activity. They can, therefore, contribute little to the surveillance and control of the international communist movement. Although they are now capable of coping with any present communist threat to the internal security of Costa Rica itself, a major resurgence of communist activities could not be handled by the existing organization.

IV. Inventory of Existing U.S. Assistance Programs Bearing on Internal Security

28. Because of the country's proximity to the Panama Canal and to the United States, it is essential that economic and political stability be maintained. This is particularly important in view of the fact that Costa Rica's relationship with her neighbors and some other Latin American countries has recently been strained and difficult. The Mutual Security Program is intended to help maintain the desired stability. As a part of a general program to expedite completion of the Inter-American Highway, the Bureau of Public Roads has earmarked $19 million as its two-thirds contribution to the Costa Rican sections of the Highway over the next three years. The Costa Rican one-third share in the project which has been computed at about $9,540,000 has been covered by an Ex–Im Bank loan authorized on November 3, 1955. The Ex–Im Bank participation in other loans and credits to Costa Rica since January 1955 has totalled $3,990,000 chiefly for electrical equipment, farm tractors, and motor trucks.

29. Since land and timber are Costa Rica's only recognized natural resources the *Technical Cooperation Program* concentrates on expansion and diversification of agriculture to lessen dependence on bananas and coffee. More than one-third of the total U.S. expenditure is devoted to this phase. However, in order to foster general economic progress, the U.S. provides technical assistance also in health and sanitation, education, public administration, civil aviation, farm-to-market road transportation, housing and community development as well as in the broad field of industrial development. Training in modern labor techniques and practices is offered to government officials and labor leaders. The U.S. spent $926,000 in FY 1955; has programmed $971,000 in FY 1956; and ICA is proposing $1,026,000 for the continuation of these activities in FY 1957.

30. All *military aid* to Costa Rica has been supplied under the Reimbursable Aid Program. Material received has been in the form of small arms, machine guns and ammunition for the Civil Guard and the 4 F–51's (one since accidentally destroyed) purchased in

early 1955. To date orders have been placed for $859,000 worth of equipment of which $764,000 has already been delivered.

31. There is a U.S. Army Mission consisting of two officers and five enlisted men which supervises training in the Civil Guard.

32. Currently about two officers are being trained each year in military schools in the United States and some seventy-six officers and enlisted men attend U.S. Army schools in the Canal Zone. In addition, four Costa Rican pilots are now being trained for propeller-driven fighter aircraft by the U.S. Navy at Pensacola, Florida.

33. The *exchange program* with Costa Rica has been in operation since 1940. Funds for exchanges are currently appropriated annually by the Congress under the general authorization of P.L. 402, 80th Congress. The following table shows the scope of the program with Costa Rica for the past three years.

Educational Exchange Grants

Costa Rican Grantees	1954	1955	1956
Students	5	5	7
Teachers	1	1	2
Leaders and Specialists	—	3	3
Lecturers	—	—	1
TOTAL	6	9	13
U.S. Grantees			
Students	2	2	1
Lecturers and Research Scholars	—	1	—
TOTAL	2	3	1

[None of the above exchanges was in the field of internal security][2]

In 1955, assistance to the Lincoln School at San Jose amounted to $8,000. Of the 337 pupils enrolled, 75 were United States children, 228 Costa Ricans and 34 of other nationalities. The level of instruction extends from kindergarten through high school. Of a total of 19 teachers, 6 are United States citizens, 9 Costa Ricans and 4 of other nationalities. $14,170 has been obligated for American School assistance in Costa Rica in 1956.

34. There is a small but active *U.S. information program* in Costa Rica, utilizing all local media outlets. At least ten radio stations regularly use USIS programs and many others borrow material occasionally. There is no television yet. All five daily newspapers

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[2] Brackets in the source text.

make extensive use of news and special articles from USIS, which also publishes a monthly labor magazine and distributes pamphlets as part of its press operation. USIS films are shown by two mobile units and also by commercial theaters. There are two American grantees in the bi-national center which has over 1,000 enrolled members. USIA program cost for FY 1956 was approximately $76,600. Estimated cost for FY 1957 is $113,800. Priority target audiences are political, religious and labor leaders, radio and newspaper editors and commentators, teachers, students and businessmen. The program is designed to encourage confidence in democracy and free enterprise, as contrasted with the Soviet system; expose communist tactics and action in Latin America; create an awareness of U.S. technical and cultural cooperation with Costa Rica, and support U.S. foreign policies.

V. Political Factors Bearing on Internal Security Program and Feasibility of US Assistance

35. Costa Rica has traditionally been more stable than most of its neighbors, and its government has usually had a broader democratic base than is found in many Latin American countries. The stability was temporarily upset by a six weeks civil war in 1948. Constitutional order was restored but since that time Costa Rica has been subject to stronger internal and external pressures.

36. In 1948 Rafael Angel Calderon Guardia, who controlled the outgoing Picado administration, attempted to regain the presidency despite the evidence that his opponent, Otilio Ulate, had received a clear majority in the presidential elections. Calderon had the backing of the communist Popular Vanguard Party (Partido Vanguardia Popular or PVP) with which he had collaborated during the Calderon and Picado presidencies. The high-handed attempts of Calderon to annul the election of Ulate caused an immediate reaction. Anti-government forces, recruited and led by Jose Figueres, defeated the Calderonistas in a brief but bitter civil war. Figueres was the de facto head of government for eighteen months before turning the reins over to Ulate. In 1953 Figueres was elected to the presidency, obtaining two-thirds of the popular vote. His term runs until May 1958.

37. Figueres has the support of his National Liberation Party (Partido Liberacion Nacional or PLN). The PLN draws its support largely from the lower classes and especially from labor groups, although its leaders are mostly from the upper and middle classes. It is ideologically opposed to communism and friendly to the U.S. The PLN is noted for its zeal in crusading for social reform, although this has been somewhat moderated recently. To date, it still controls a majority of the voters through its propaganda and its party machine

work. The social reforms of Figueres, although comparatively mild, have alienated a number of his former supporters. His opposition, however, is still in the minority and its effectiveness is further limited by deep divisions within it.

38. Fourteen of the 45 members of the Costa Rican Legislature were elected by parties opposing Figueres. Since the elections of 1953, these parties have largely disappeared as formal organizations, but they are now regrouping. Ex-President Ulate has recently attempted to organize a Democratic Opposition Movement (Movimiento Democratico Oposicionista) to unite anti-Figueres forces prior to the 1957 elections. Because of personal differences between the various leaders, this effort has not been entirely successful. None of the opposition leaders is believed to have communist connections or leanings at this time; the Calderons have repudiated their former communist support.

39. The Government of Costa Rica faced a serious threat early in 1955 when Calderon and Picado forces, with covert assistance from Nicaragua and Venezuela, attempted to invade the country. They received little or no internal support and the attempt was quickly terminated after the Organization of American States intervened. Since that time there have been occasional rumors of revolutionary movements against Figueres. Most now feel, however, that the opposition would have little to gain and much to lose by attempting a forcible overthrow prior to the next elections in 1957. It is considered that the government is generally stable and that Figueres will finish out his term.

40. The heir-apparent to Figueres is Francisco Orlich Bolmarcich, present Minister of Public Works, although there is some opposition to him within the PLN. Orlich is considered to have a more practical approach to economic and social problems than does Figueres being more of a businessman than a theorist, although he follows the Figueres program.

41. While the present government of Costa Rica has been anti-communist and pro-U.S. in its international actions, there have been occasions when its representatives have followed neutralist tendencies because of conviction, a lack of control or discipline, or as an assertion of independence. There is a general lack of concern over the threat of international communism. Mostly as a gesture of disapproval of the host government, Figueres refused to allow Costa Rican attendance at the Tenth Inter-American Conference at Caracas in 1954 which dealt with the menace of communism. Costa Rica has since subscribed to the anti-communist resolution adopted by this Conference, however.

42. Figueres has courted and experienced trouble because of his outspoken stand against Latin American dictators, his meddling in

Central American affairs, and his harboring of prominent exiles from neighboring countries. He remained friendly towards Arbenz in Guatemala after others had become aware of his communist orientation. He probably was at least aware of the attack launched from Costa Rica in 1954 against President Somoza of Nicaragua, who had given military assistance to the Calderon brothers against Figueres in 1948.

43. Hatred and suspicion still exist between Figueres and Somoza despite an ostensible recent improvement in relations. This strong feeling does not apply generally to the peoples of the two countries. It is not certain that Figueres and PLN hotheads have ceased to conspire against neighboring dictatorships or that these have ceased their intrigues against Figueres. The presence in Costa Rica of Guatemalan, Nicaraguan and Venezuelan exiles is a source of irritation to neighboring governments.

44. While Figueres took drastic action against communists during the revolution of 1948, the attitude of the government toward their suppression is currently somewhat lackadaisical. No immediate threat from them is seen. Figueres feels he can control communism by his type of social reform designed to improve the conditions of the masses. He may also feel that repressive measures would only drive communists further underground. The communists, although opposing Figueres, find elements of his program that they could support if not given any better alternatives. Opportunism is apparently the dominating factor with regard to any political alliance by the PVP in the future elections.

45. The Figueres government has so far proved ineffective in removing communist influences from the labor movement in the banana zones despite reasonably good opportunities to do so. It has announced its intention of making further efforts toward that end.

46. Costa Ricans are very proud of their democratic traditions and civil liberties. The majority of the people are opposed to anything with a militaristic taint, and efforts to increase armed power would be most controversial. The government and the people would oppose measures tending to curtail freedom. In order to assure government and popular support for anti-communist moves, it would be necessary that any program in this connection be carried out gradually and unobtrusively. It is believed that the present government would accept U.S. assistance on this basis.

VI. Recommendations

47. *Police Administration*

(a) Upon the request of the host government, conduct a preliminary survey to determine the requirements for improving the capabilities of the Costa Rican internal security forces under the Ministry of Public Security, paying particular attention to the strengthening of the organizational structure and quality of performance of the Office of Investigation Coordination and the Director General of Detectives in the surveillance and control of the communist movement.

Responsible Agencies: State (for obtaining request); ICA (for execution).

. . . .

Cost: $8,000 to $15,000 (not presently programmed)
Timing: As soon as practicable.

(b) Upon completion of, and in the light of conclusions reached by, the above-mentioned preliminary survey, the Operations Coordinating Board will consider the desirability of:

(1) Training on the spot and/or in the United States, as required, the number of officers needed to make the operation of the Ministry of Public Security effective; and

(2) Assisting Costa Rica in the procurement of the necessary equipment.

48. *Attitude of Government.* In order to bring about more effective control of communist activities, seek to convince the government to adopt additional legislative measures and enforce these and existing measures, to:

(a) Limit the international movement of communists.
(b) Increase penalties for communist activities.
(c) Eliminate communists from union leadership.
(d) Restrict communist propaganda.

Responsible agency: State

. . . .

Timing: As appropriate

49. *Attitude of Public.* In order to increase public support for anti-communist measures, continue present U.S. programs aimed at alerting the public to the communist menace.

Responsible agencies: State, USIA

. . . .

Timing: Continuing.

6. Letter From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in Costa Rica (Woodward)[1]

Washington, October 17, 1956.

DEAR BOB: The Under Secretary has referred your letter of October 5, 1956 concerning implementation of the internal security program in Costa Rica to ARA for appropriate handling. We all greatly appreciate the rapidity with which you have responded to the OCB paper sent you by the Under Secretary on September 17. This will be in the nature of a tentative reply to some of the points raised in your letter which will require further consideration and action here in Washington.

I will communicate with you separately regarding the tie-in you make between this internal security program and the current efforts to undermine the principal center of communist strength in Costa Rica, namely the labor movement in the Pacific banana zone of the country. The two programs are necessarily handled by different people here in Washington.

The OCB Working Group which prepared the 1290–d paper did, as you surmised, take into consideration the international political implications of US efforts to strengthen the Costa Rican security forces and was fully aware of the risks involved. The current situation is such as to make any immediate survey unwise, in my opinion, and I believe we should do nothing in this connection for the time being. I note that the final paper omitted a provision which the Working Group tried valiantly to include, to the effect that the timing of the survey should depend on relative country priorities and would be influenced by progress in implementing other parts of the program. This would have provided greater flexibility as intended. Nevertheless, the general situation in Central America, especially the uncertainty in Nicaragua as an aftermath of Somoza's assassination[2] and the absence from Costa Rica of President Figueres, would make it undesirable to approach the Costa Rican Government immediately on the question of an internal security survey. At the proper time, however, all that is needed to proceed is a formal request from the appropriate authorities. Contrary to the thought expressed in your letter, ICA has funds available for this program. Procedures have been worked out here in Washington to carry out these surveys through ICA, and funds and personnel can be made available within a reasonable period after a decision to proceed is taken. Limited funds are also available to carry out the recommendations of the survey group when required. It would be our hope that the Costa Rican Government could be convinced that remedial measures would be in its own interest rather than in ours, and consequently be willing to put up the necessary funds. I recognize the problems involved here, however, and this is a bridge we can cross when we come to it.

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Latin America, 1956. Top Secret: Official–Informal.

[2] President Anastasio Somoza of Nicaragua was shot on September 21, 1956; he died September 29.

With respect to Paragraph 48 of the 1290–d paper, everyone recognizes that the Embassy will have to proceed with the greatest caution in the face of Costa Rican traditions and prejudices. We are requesting that the material you asked for be sent you separately. As I indicated above, we all appreciate the prompt attention you have given this project. Now that its base has been set, I believe future correspondence on the details of implementation could best be handled through regular despatches and telegrams. If there are any unusual problems which should not receive wide distribution, however, of course write directly to me concerning them.

Sincerely yours,

R. R. Rubottom, Jr.[3]

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[3] Printed from a copy which bears this typed signature.

EL SALVADOR

UNITED STATES RELATIONS WITH EL SALVADOR[1]

7. Letter From the Ambassador in El Salvador (Hill) to the President[2]

San Salvador, February 23, 1955.

MY DEAR MR. PRESIDENT: The recent visit of Vice President Nixon to El Salvador[3] was a tremendous success. It is the first time in history that a Vice President of the United States in office has visited this country and, although the Salvadorans are not demonstrative people by nature, it was soon obvious that Mr. Nixon captured the hearts of the people as he toured the streets and met with government officials. There was a notable rise in enthusiasm in every walk of life during his stay.

It is my opinion, based on numerous conversations with well informed local residents that the prestige of the United States has never been as high as it is right now as a result of Mr. and Mrs. Nixon's visit.

It is respectfully suggested that consideration be given to a follow-up visit in approximately six to nine months by some other appropriate government official in order to capitalize on this warm spirit of friendship created by the Vice President's visit.

It is an honor Mr. President to serve in your administration.

Respectfully yours,

Robert C. Hill

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[1] For previous documentation, see *Foreign Relations,* 1952–1954, vol. IV, pp. 1000 ff.

[2] Source: Eisenhower Library, Whitman File, Dulles–Herter Series.

[3] Vice President Nixon visited El Salvador, February 15–17, as part of a larger tour of Latin America (see vol. VI, Document 193, footnote 1). Nixon's visit to El Salvador is described in despatch 220 from San Salvador, February 17. (Department of State, Central Files, 716.00(W)/2–1755)

8. Memorandum From the Special Assistant for Intelligence (Armstrong) to the Secretary of State[1]

Washington, August 24, 1955.

SUBJECT

Intelligence Note: Political Tension in El Salvador

Political tension in El Salvador is mounting steadily as the result of premature campaigning for the presidential elections scheduled for 1956. At present, President Oscar Osorio appears to have sufficient military and public support to control the situation and the opposition does not have an effective political organization. Nevertheless there is a possibility of a military coup before the expiration of Osorio's term in September of next year.

The developing political instability is the failure of all political groups to respect the constitutional prohibition against campaigning more than four months before the date, as yet unspecified, set for elections. The administration candidate, Col. Jose Maria Lemus, has the advantage of the support of Osorio and the country's only effective political party PRUD (Partido Revolucionario de Unificacion Democratica). Roberto E. Canessa, who enjoys considerable popularity, and Lt. Col. Rafael Carranza Amaya, with strong military following, are the principal opponents. In the final analysis, the army will probably determine Osorio's successor. Since the army is divided, a coup by a military faction before the expiration of Osorio's term is a strong possibility. At the present time the most likely leader to pursue such a course is Carranza.

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[1] Source: Department of State, Central Files, 716.00/8–2455. Secret.

9. Despatch From the Ambassador in El Salvador (Hill) to the Department of State[1]

No. 98 *San Salvador, September 8, 1955.*

SUBJECT

Memorandum of Conversation of September 7, 1955.

PARTICIPANTS

Salvadorans (In order of appearance)	*Americans*
President Osorio	Ambassador Hill
Under-Secretary of Foreign Affairs Azucar Chavez	Counselor of Embassy Braggiotti
Tomas Regalado, businessman	Col. Henry J. Muller, Jr., Army Attaché
Rafael Meza Ayau, former Minister of Economy	
Federico Garcia Prieto, businessman	
Jose Maria Peralta Salazar, President of Legislative Assembly and Vice-President	

President Osorio invited Ambassador Hill to meet with him at his residence at 5:00 o'clock, Wednesday, September 7, 1955, along with the above-listed individuals. When we arrived, the President was alone and was later joined by Under-Secretary Azucar Chavez which gave Ambassador Hill the opportunity to take up some official matters before the arrival of the other guests. The following topics were discussed:

1. Ambassador Hill's Departure.

The Ambassador informed President Osorio regarding his imminent transfer to serve as Special Assistant to Under-Secretary Hoover in the State Department and told the President that he would depart on Wednesday, September 21, 1955. The Ambassador added that to date he had not been informed regarding the name of his successor. The President said he was sorry to hear that the Ambassador was definitely leaving and stated that in his opinion the President considered the Ambassador to be a wonderful example of a man who is dedicated to serve his country (espiritu de servicio) and the President added that he had enjoyed a closer relationship with Ambassador Hill than he had with any previous American Ambassador and that he genuinely liked to do business with him. The President added that he knew that Salvador would continue to have a friend in Washington and that perhaps the Ambassador could continue to maintain his interest in this country.

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[1] Source: Department of State, Central Files, 716.00/9–855. Confidential; Limit Distribution. The source text indicates that Ambassador Hill approved this despatch.

2. Post-Geneva Policy of the United States.

In accordance with Instruction No. 1 dated August 15, 1955[2] from the Department, Ambassador Hill discussed the attachment with President Osorio and Under-Secretary Azucar Chavez. The President expressed considerable interest in the main points of the instruction and commented that it was a pity that it was confidential as he felt that the United States would do itself a great deal of good by disseminating these points in the press and other media.

The President also expressed the opinion that he felt that the United States had been too "soft" in dealing with its major allies, the United Kingdom and France; he felt that we had often gone too far in acceding to their demands instead of standing firm and persuading them to follow our lead. He spoke of this in connection with the Geneva Conference as well as with previous tri-partite meetings which had been held.

3. Elections.

In commenting on the forthcoming elections, the President made the following points:

A. He was determined to do everything possible to give the people a "free" election and up to a certain limit he would allow the opposition a free hand. He was grieved by certain of their actions but was restraining himself. If he had to crack down, he would and was ready to do so.

B. He had been very much disturbed at the premature start of the election campaign but as "every cloud has a silver lining" it has turned out rather fortuitously for his Administration, the President said, because the premature campaigning had flushed out certain information of which he had not previously been aware and which was extremely valuable to him in diagnosing the present political situation.

C. Free elections "Salvador style" were admittedly not as free as we understood them in the United States. Certain supporters like Dueñas and Regalado, for example, could influence many votes. They were great "electors". What they couldn't supply, he could.

D. He felt he was in a stronger position than any time since 1948.

E. He had no intention of letting any irresponsible leader seize power and undo his achievements of the past seven years.

F. He felt fortunate to be in power at this time in history when El Salvador was almost, if not entirely, ready for democracy.

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[2] Not printed.

G. The only way his present plan could be a fracaso would be if he were to be assassinated. He wasn't too concerned with this possibility because "he was born under a lucky star."

H. He realized his responsibility to continue a responsible and stable government and was sure he would succeed in this. He knew that Regalado and others present doubted the wisdom of his present attitude of tolerance.

I. A seemingly free election would prevent strong dissatisfaction on the part of the minority opposition and would make the work of his successor that much easier.

J. He would stress his views on the elections in his speech on September 14, 1955.

K. He admitted, in effect, that he was being idealistic in his attitude toward the elections but concluded this phase of the conversation by stating: "I will continue to keep my head in the sky but my feet solidly on the ground."

4. Communism.

President Osorio stated that the communist problem was becoming quite a severe one in this country but that his administration had assumed the attitude towards the communists of a "cat and mouse technique" whereby the communists were continually caught off balance. The President did not appear to convince his guests that the Government had been very successful in this technique. The President also stated that up until now he had only been forced to use strong methods in two cases. (No further details were forthcoming from the President concerning this remark.)

Comment: It is interesting to note that since the official Government Party (PRUD) has opened up its campaign attacking Canessa and his Party (PAN) of being infiltrated with communists, the President and other officials have spoken out definitely against communism and its influence in this country in a much more realistic manner.

5. MDAP (Military Defense Assistance Pact).

President Osorio spontaneously mentioned to Ambassador Hill that Salvador intended to negotiate a Military Defense Assistance Pact with the United States. The President explained that the delay since January, 1954 was not due to Salvador's unwillingness to enter into such a pact but only because things moved slowly here and there were many factors that had to be ironed out. Ambassador Hill merely said that Salvador's position was understood and that certainly there was no urgency in the matter.

6. ODECA.

President Osorio volunteered the information that he had been taken by surprise when Foreign Minister Trabanino telephoned him from Antigua to request his permission to accept the position as Secretary General of ODECA. As he had not authorized Trabanino to be a candidate for the position, he asked for a fifteen minute period to consider the offer. He was reluctant to grant permission as he felt that a Salvadoran should not be the first Secretary General but he decided that if he refused, it might mean the torpedoing of ODECA and, therefore, he acceded to the request.

7. ICA.

With reference to ICA, the President observed that:

A. The Administration had to be certain it was getting full value for each colón spent. The Government's budget was very limited in consideration of the many things which had to be done for the country. Careful planning was necessary to insure that funds were well spent and this called for qualified technicians to advise the Government in all fields.

B. He was satisfied that his Government was receiving an adequate return for the money it spent on ICA activities.

C. He believed that the quality of the ICA technicians was generally satisfactory, certainly much higher than those of the various United Nations missions. In his opinion, El Salvador had better technicians locally than some of the U.N. personnel sent here. Moreover, some of the U.N. representatives, he believed, had leftist ideologies.

D. It was true that his Government was often criticized for employing too many foreign técnicos, often at salaries many times that of their Salvadoran counterparts. He wasn't too concerned about this, however, as this type of criticism is normal and proper in a "democracy". He knew the value of the ICA advisors but admitted that the people were not sufficiently familiar with their activities and their accomplishments. The President believed that it was a mistake on our part not to give more publicity to ICA activities such as a recent jointly produced ICA-Ministry of Labor propaganda film regarding the purpose of labor inspections. When one of the United States participants asked the President if he would not object to more of this type of pro-ICA propaganda in his country, he replied that, on the contrary, he would welcome it.

8. Need for Improving Educational Level and Diet of the People.

A. The President several times stressed that the most urgent need in El Salvador was improving the education (cultura) of the people in all fields. He said, in effect, that the Salvadorans were a very backward or retarded people and that this was the principal obstacle to political, economic and sociologic progress.

B. Another priority objective was improving the national diet which now consisted principally of corn, beans and rice. Although the people looked well-fed and were generally strong, he pointed out that the most serious effect of the inadequate diet was the extremely high infant mortality rate. This he attributed to the fact that the mothers' milk lacked the various dietary elements necessary for a healthy baby.

9. Fertilizer Plant and Lempa Project.

A. The President stated that he had directed a study made on the feasibility of building a fertilizer plant which would produce nitrates from the atmosphere. This would solve two urgent problems; i.e., low-cost fertilizer (an estimated seven colones a hundred weight as compared with about twelve colones for imported chemical fertilizers) and would make use of the large amount of surplus electrical power from the Lempa hydroelectric plant which was now being wasted "down the river" during all but the peak-load periods. He estimated that there was surplus power for about eighteen hours a day.

B. The sale of power to such a fertilizer plant would serve to correct the present deficit under which the Lempa project was now operating.

C. In connection with the Lempa project, he said that he hoped it would eventually be out of the red with or without the fertilizer plant as soon as distribution systems were expanded. He pointed out that one reason for the deficit was that El Salvador had been required to begin its interest payments to the World Bank in 1952, two years before the project could begin selling power in June, 1954. The date that interest payments were to begin had been predetermined in the loan agreement. An unforeseen delay was encountered in completing the project due to difficulties in obtaining certain materials during the Korean war.

D. When the Ambassador asked if El Salvador had considered selling its surplus power to neighboring countries, the President and others present expressed the opinion that this was not feasible at present. For one thing, El Salvador actually has no great surplus during peak-load periods. The surplus would, therefore, have to be utilized by a Government-controlled project operating during specified periods of the day. Further, the only neighboring areas where a market for power existed were Guatemala City and Tegucigalpa. These capitals, however, were too distant from the project and their power requirements still too limited to warrant the expense of erecting distribution lines.

E. The President then arranged by telephone for Ambassador Hill to visit the Lempa Dam on Friday, September 9, 1955.

10. Machete Plant.

The Ambassador told the President of his recent visit to a new machete plant in Zacatecoluca. Mr. Meza Ayau, the former Economic Minister, commented that this would be a sound project provided the machetes could be made of local scrap iron but that if fine steel had to be imported from the United States or Sweden, there would be little saving in view of the probable inefficiency of the local operation. The President showed little interest in the project except to make two joking, but perhaps pointed, remarks. To the Army Attaché he said that the machete factory could be considered an essential arms industry since if El Salvador experienced difficulties in importing modern arms, he could always organize machete battalions which might be quite effective. To Mr. Meza Ayau he commented, "If you were still Economic Minister, you would probably want to impose an immediate tariff on United States and European machetes."

11. The Church.

During a discussion of the current events in Argentina, the President again stated his firm opposition to the secular influence of the Church. He said that this was a matter which we in Central America definitely settled over a century ago.

12. Central American Union.

President Osorio stated that the Salvadorans had traditionally been the strongest supporters of a Central American union, and this was particularly true at the present time since El Salvador, with its large population and limited land area, clearly had the most to gain by such a union.

13. Low-Cost Housing.

When Mr. Regalado commented that the low-cost housing projects in El Salvador were only possible because of Government subsidies, the President claimed that the project was proving to be economically sound for the Government, but more than this, the greatest value was the sociologic aspects of the project. He said that each family that occupies such a house becomes a stable element in the country. They have "their roots in the ground" and become more concerned with progress and good government.

14. Farewell Dinner for Ambassador Hill.

The President concluded the evening by inviting the Ambassador to a farewell, black-tie dinner in his honor on September 20, 1955.

The conversation was cordial throughout the eight hour get-together; the President appeared to be in better health than the last time we had seen him and also was in very good spirits, exhibiting considerable energy and force in his dissertation on the forthcoming elections.

For the Ambassador:
D. Chadwick Braggiotti
Counselor of Embassy

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10. Memorandum for the Files, by Bayard King of the Office of Middle American Affairs[1]

Washington, September 20, 1956.

SUBJECT

Political Situation in El Salvador

Assistant Secretary Robert Hill,[2] who attended the presidential inauguration in San Salvador[3] and was there from September 13 to 17, 1956, has furnished us with the following information:

1. Ex-President Osorio

Mr. Hill had a number of conversations with Osorio. The Ex-President plans to visit Washington in November, 1956. While here, he would like to meet some key people and visit industrial areas of the United States, such as the Pennsylvania steel mills and a General Motors plant. It was suggested that Osorio could be taken to visit West Point, and that the military could probably take care of showing him some of their installations. A principal reason for Osorio's visit is to seek a reconciliation with his estranged wife, who, with their three children, is living in New York. This has been urged on him by a number of friends. Osorio has never really seen much of the United States outside of New York and other big cities, and Mr. Hill thinks he would very much like to visit other areas.

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[1] Source: Department of State, ARA Special Assistant's Files: Lot 58 D 749, El Salvador. Confidential.

[2] Robert C. Hill terminated his mission as Ambassador in El Salvador September 21, 1955; he was succeeded by Thomas C. Mann, who was appointed Ambassador on October 11, and presented his credentials on November 24, 1955.

[3] Lieutenant Colonel José María Lemus was elected President of El Salvador on March 4, but did not assume office until September 14, 1956. Information pertaining to his inauguration is in despatch 147 from San Salvador, September 14. (Department of State, Central Files, 716.00(W)/9–1456)

2. President Lemus

Mr. Hill was told that the new President intended to "cut the Gordian knot" with Osorio and the past, instead of assuming gradual control over the heritage left him by the previous regime. Lemus is somewhat of a prima donna, and enjoys having his photograph taken. He told Mr. Hill that he was extremely pleased with the Panama conference[4] and his reception by President Eisenhower. He said he intends to carry on the policies of the Osorio administration, and while he is grateful for what the United States has done for El Salvador, he does not intend to ask for anything that El Salvador will not pay for.

Ricardo Creet, a former American naturalized Salvadoran living in New York, told Mr. Hill he considered the new Lemus cabinet the strongest cabinet in 30 years. The Foreign Minister, Dr. Ortiz Mancia, is inexperienced but has good intentions. The New Labor Minister, Dr. Guzman,[5] is not as leftist as was Hector Salazar. In general, it appears to be a pretty good cabinet, and Mr. Hill heard no criticism of the new cabinet. Lemus is a personalist who will be hard-boiled but can be expected to eliminate some of the graft of the Osorio administration. Mr. Hill believes we may have trouble with Lemus although the new President has said he is friendly to the United States.

3. Labor

Mr. Hill said there is concern in El Salvador over U.S. desire for rapid development of a labor movement. Some people, like the coffee growers, believe Dr. Tragen[6] of ICA is doing too much in the labor field and opposition to our labor programs in the country may be expected.

4. Coffee

A number of Salvadorans headed by Chico de Sola protested to Mr. Hill that the United States has levied a duty of 3¢ per pound on soluble coffee the Salvadorans are now producing. De Sola thinks this duty is illegal and wants to sue or take other legal measures in the United States to protest. Mr. Hill suggested to them that it would be more appropriate to make their views known through normal diplomatic channels as El Salvador might receive unfavorable publicity if direct methods were used. He was not sure he convinced them, particularly de Sola.

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[4] Reference is to the meeting of the American Presidents in Panamá, July 21–22, 1956; for documentation, see vol. VI, Documents 109 ff.

[5] Apparent reference to Mauricio Guzmán, Minister of Education in President Lemus' cabinet; Ramón Avila Camacho was Minister of Labor.

[6] Irving Tragen.

5. "Time" Magazine

Mr. Hill was told that El Salvador strongly resented Harvey Rosenhouse's reporting on the country. At one time Osorio considered forbidding Rosenhouse to enter the country, but was dissuaded from doing this.

6. Canessa[7]

Mr. Hill was told by Osorio that Canessa has taken a financial beating and is probably finished politically. However, he is not a man to accept defeat gracefully and there may be trouble from him in the future. Osorio said he regretted that the political views of Canessa and himself were responsible for their estrangement.

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[7] Roberto E. Canessa, former Minister of Foreign Affairs.

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11. Memorandum From the Director of the Office of Middle American Affairs (Neal) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, February 18, 1957.

SUBJECT

El Salvador: Lemus Government Continues Stable After Five Months in Office

After five months in office President Lemus has made a good impression on the public generally (although he has disappointed a number of former leaders in the dominant party—PRUD). There is no known opposition by either civilians or military figures which seems serious enough to threaten the stability of his government.

In a general survey of Lemus, his actions and prospects, the Embassy reports the following salient facts:

1. Lemus selected his Cabinet with only perfunctory, if any, consultation with former President Osorio and PRUD leaders. His Cabinet, made up of the best qualified men he could find, is widely approved. In general the top places are filled by non-Prudistas or by

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[1] Source: Department of State, Central Files, 716.00/2–1857. Confidential.

persons not intimately associated with the controlling group in PRUD.

2. The so-called anti-Communist law was rescinded and exiles permitted to return because Lemus reportedly disliked the arbitrary wording of the law and felt it violated constitutional guarantees.

3. Lemus recently vetoed a municipal tax bill despite prior approval of the bill by all levels of government including the Ministry of Finance; Lemus' veto angered some PRUD deputies but it appears no attempt will be made to over-ride the veto.

4. There have been unconfirmed reports that Lemus wishes to replace PRUD with a new party to reflect the transition from a "revolutionary" to a more stable government. Down-grading of the 1948 Revolution might displease Osorio and his close adherents.

5. Lemus published an accounting of his personal wealth shortly after assuming office and urged other high officials to do likewise as an assurance of honest administration. This could be construed as a reflection on the previous administration.

6. Although the foregoing points might be vaguely disturbing, Lemus was Osorio's choice for President and Osorio and the PRUD were responsible for his nomination, election and inauguration. Lemus is undoubtedly grateful for Osorio's and PRUD's support and the foregoing points may show only a tendency to be the President in his own right. Lemus stated in his inaugural address that he would continue the policies of the prior government subject to normal evolution. The Embassy feels that the principal difference between Lemus and Osorio is Lemus' apparent willingness to go to greater efforts to cater to public opinion. The Embassy notes Lemus' sincere desire to have an efficient and honest administration.

7. The Embassy does not wish to suggest that differences between Lemus and the PRUD are great enough to point to trouble and it feels that Osorio's natural inclination would be to work for order and continuance of Lemus in office. However the Embassy notes that it is always possible that Osorio and his former associates might become aroused if Lemus should "abandon the Revolution" or drop the PRUD party and its policies, or if they became convinced that Lemus was seeking to break their influence. In case of serious difficulty the Embassy believes that the armed forces would be the controlling factor. The Embassy notes that "it seems doubtful that the loyalty of the armed forces has been completely transferred from Osorio to Lemus . . . ".[2]

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[2] Ellipsis in the source text.

12. Letter From the Ambassador in El Salvador (Mann) to the Ambassador in Nicaragua (Whelan)[1]

San Salvador, July 16, 1957.

DEAR TOM: I understand that President Somoza still believes that President Lemus is unfriendly to him. Presumably this is based principally on the Salvadoran belief and action that they were prohibited by the Constitution from surrendering Nicaraguan exiles for trial in Managua and secondarily on an alleged partiality for Honduras in its recent dispute with Nicaragua. If there is another cause of complaint I am not aware of it.

As for the exiles, the Salvadorans do genuinely believe that both the doctrine of asylum and their law forbid them from surrendering the exiles. As for Honduras, they believe that they have leaned over backwards to maintain an attitude of strict impartiality; everything I have seen and heard leads me to believe that they have. They say that the Hondurans are annoyed that they did not receive support and conjecture that the various sudden and unannounced visits of Honduran officials may have been planned and timed to mislead people into supposing that a Salvadoran-Nicaraguan entente existed.

I will say that I believe Lemus, unlike Osorio who has no special liking for the Somozas, genuinely wants to be friendly with the Nicaraguan Government and, as far as I know, there is no reason why the two governments should not be friendly. I think the next months will show that President Lemus will be attacked by the same elements who are after the Somozas and that they have a common cause.

If you think it wise, perhaps you would like to reassure President Somoza of President Lemus' good intentions. I will be glad to do anything within reason to help clear up any misunderstanding that may exist.

Sincerely yours,

Thomas C. Mann[2]

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, El Salvador. Secret; Official–Informal.

[2] Printed from a copy which bears this typed signature.

13. Letter From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in El Salvador (Mann)[1]

Washington, July 30, 1957.

DEAR TOM: Thank you for your letter of July 16, 1957 concerning Lemus' attitude toward the Somozas[2] and the problem of obtaining a decision on the Lemus visit.

The assassination of President Castillo Armas has added another element of uncertainty to the strained atmosphere in Central America. I believe that you should encourage President Lemus in the neutral stabilizing course he has been following. Similarly, in the other countries we should take every opportunity to promote harmonious relations between the five ODECA countries, including the personal relations between high officials.

We intend to keep pressing for a decision on an invitation to President Lemus for a state visit. The Under Secretary's Office feels that it is premature to decide on next year's visitors now and that the question should be raised in October. We shall keep trying to obtain a commitment for Lemus before then if possible. I realize how difficult this long period of indecision has been for you.

It was very pleasant to see you last week, even though so briefly. I hope you are feeling better now.

Sincerely,

R.R. Rubottom Jr.[3]

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, El Salvador. Secret; Official–Informal.

[2] The letter reads in part: "As you will deduce from the enclosed copy of my letter to Tom Whelan [*supra*], I surmise that there was a basis for suspicion before but that Lemus is trying to patch things up even at the cost of some popularity for the general Salvadoran public doesn't like the Somozas. Furthermore, the general public here looks on Honduras as the future outlet for its surplus population and dreams of a union with Honduras. In spite of this, I am convinced, I hope not incorrectly, that Lemus is trying to heal the old wounds and to promote the ideal of ODECA." (*Ibid.*)

[3] Printed from a copy which bears this typed signature.

GUATEMALA

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND GUATEMALA[1]

14. Letter From the Assistant Secretary of Defense for International Security Affairs (Hensel) to the Secretary of State[2]

Washington, January 12, 1955.

DEAR MR. SECRETARY: Reference is made to a letter dated 2 December 1954, from the Deputy Under Secretary of State,[3] regarding the role Guatemala might be requested to assume in the defense of the Western Hemisphere, as well as its participation in the Mutual Security Program.

In view of the recent military survey completed by the Chairman, U.S. Delegation, Inter-American Defense Board,[4] the Joint Chiefs of Staff consider that the specific tasks which Guatemala could perform in furtherance of a Western Hemisphere defense role would be comparable to those assigned to Nicaragua and Honduras and, hence, of negligible value. However, in light of the views expressed in your letter of 27 October 1954,[5] the Joint Chiefs of Staff recognize that political considerations will dictate that a Military Assistance Program be initiated for Guatemala as in the case of Nicaragua and Honduras. Since Guatemala is considered to have approximately the same military potential as both Nicaragua and Honduras, similar force bases and defense roles should be assigned to that country.

In keeping with national policy with respect to the problem of standardization in Latin America, and a recommendation contained in the survey report concerning non-U.S. equipment held by Guatemala, the Joint Chiefs of Staff consider it appropriate that the Department of State, in coordination with the Department of Defense . . . make representation to the Guatemalan Government to encourage and assist that government to dispose of non-U.S. military equipment surplus to its normal needs.

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[1] For previous documentation, see *Foreign Relations,* 1952–1954, vol. IV, pp. 1027 ff.

[2] Source: Department of State, Central Files, 714.5–MSP/1–1255. Secret.

[3] Not printed. (*Ibid.,* 714.5–MSP/11–2454)

[4] Major General Robert W. Douglass, Jr.

[5] See *Foreign Relations,* 1952–1954, vol. IV, p. 1234.

The Joint Chiefs of Staff consider that, for the purpose of qualifying Guatemala for grant aid, the draft Bilateral Military Plan used in negotiation with Honduras and Nicaragua contains the necessary missions and plans for employment of forces for Western Hemisphere defense, and is appropriate for use in negotiations with that country.

The views of the Joint Chiefs of Staff are approved. Accordingly, the Department of State may wish to consider initiating a request that the President find that such military assistance as may be furnished Guatemala is in accordance with defense plans which require Guatemala to participate in missions important to the defense of the Western Hemisphere. Upon receipt of the Presidential Determination required by Section 105 (b) (4) of the Mutual Security Act of 1954,[6] and notification that the country has agreed to conclude a Mutual Defense Assistance Agreement, the Chairman, U.S. Delegation, Inter-American Defense Board, will be prepared to participate in negotiations with Guatemala, in accordance with instructions already furnished.

It is emphasized that, in view of the limited military assistance funds available, the MDA Program for Guatemala can be implemented only by diversion of funds from other MDA programs world-wide. For example, funds are to be taken from the French and Italian MDA Programs to provide military assistance to Haiti in FY 1955. Since such diversion of funds affects adversely the attainment of high priority military objectives in other areas, it is the opinion of the Department of Defense that programs in Latin America cannot be considered in isolation from other programs world-wide. In this connection, your attention is invited to a letter dated 31 December 1954 (file No. I–9060), to the Special Assistant to the Secretary of State for Mutual Security Affairs, from the Assistant Secretary of Defense (International Security Affairs),[7] which outlines the availability of funds from FY 1955 appropriations for MDA Matériel Programs. After deducting transfers to the Foreign Operations Administration, the yearly administrative and operating costs and losses due to Section 1311, Supplemental Appropriation Act of 1955, Public Law 663, the Department of Defense estimates it will have only $53.4 million available for worldwide MDA matériel programs.

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[6] Reference is to the Mutual Security Act of 1954 (P.L. 665), enacted August 26, 1954; for text, see 68 Stat. 832.

[7] Not found in Department of State files.

Copies of this letter are being furnished to the Secretaries of the Army, Navy and Air Force,[8] the Joint Chiefs of Staff, and the Chairman, U.S. Delegation, Inter-American Defense Board, for their information.

Sincerely yours,

H. Struve Hensel

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[8] Robert T. Stevens, Charles S. Thomas, and Harold E. Talbott, respectively.

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15. Memorandum of a Telephone Conversation, January 21, 1955[1]

SUBJECT

Situation in Guatemala after January 20 Incident[2]

PARTICIPANTS

The Honorable Norman Armour, American Ambassador, Guatemala
Mr. Thomas C. Mann, Counselor, American Embassy, Guatemala
MID—Mr. Leddy

Ambassador Armour and Mr. Mann stated the Embassy wished to bring the Department up to date on the immediate situation; I assured them that Embassy cables 447–454,[3] all dated on the 20th, had been received and gave very clear and complete information; that the incident had been reported here in the press as front page news but describing the incident as terminated, the Government in full control and the situation calm.

Mr. Mann said that it is yet early to form any positive opinion; it appears that some attempt against the Government was scheduled, to be kicked off in the near future, and the incident yesterday may have been precipitated by the Government in order to test the strength of its opponents. At this moment it cannot be said what the result will be. The present reaction could extend into a sweeping purge, as it reopens a basic issue which existed at the time compromise was made last summer. The policy of conciliation seems temporarily suspended in favor of one of force and strength.

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[1] Source: Department of State, Central Files, 714.00/1–2155. Confidential. Drafted by Leddy.

[2] According to telegram 454 from Guatemala City, January 20, a force led by Colonel Francisco Cosenza Galvez attempted to occupy the airport and military base at La Aurora near the capital. The attackers were repelled by troops loyal to the government of President Carlos Castillo Armas. (*Ibid.*, 714.00/1–2055) In despatch 602 from Guatemala City, January 25, the Embassy offered a summary and interpretation of the events of January 20. The despatch, prepared by John Calvin Hill, Jr., Second Secretary of the Embassy, reads, in part: "It now appears to be generally accepted that there was no actual attack on the airport or Base Militar and the general impression among informed people is that the government learned a plot was about to break out and simply moved first by seizing those responsible and executing them." (*Ibid.*, 714.00/1–2555)

[3] *Ibid.*, 714.00/1–2055.

I said that newspaper accounts here indicated very few to be involved and that eight or ten of them had been forcefully dealt with. Mr. Mann said that it is not clear what the scope of the action was or [was] meant to be and that the whole reaction might be delayed a week or a month. Meanwhile, he and the Ambassador reported the present situation as apparently calm and wanted the Department to have all of the foregoing, as well as to receive any inquiries from the Department.

I told Ambassador Armour that as a result of discussions here on the evening of the 19th and morning of the 20th a cable had been drafted but had not yet gone to the Embassy, indicating the usefulness of a review of what might be considered our total position, and I suggested that the Ambassador's careful advice, in review with his staff, would be very helpful at this time. I emphasized that this was in preparation before anything happened yesterday in Guatemala and that the incident of the 20th had not sparked the inquiry, though it does highlight its importance. Ambassador Armour said that he and his staff would give very prompt and thorough action to the cable when received.

16. Memorandum for the Files, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, January 22, 1955.

SUBJECT

Notes on Conference Regarding Guatemala

PARTICIPANTS

Mr. Holland
Mr. Sparks
Mr. Newbegin
Mr. Leddy
Mr. Fisher
Mr. Krieg

It was decided that our objectives in connection with aid to Guatemala are:

1. To increase employment in order to reduce political unrest, and
2. To help the Guatemalans produce and implement an intelligent, practical program for stabilizing their economy.

The quickest way to make progress toward objective No. 1 is to begin work on the Pacific slope highway for which FOA has made available $3 million. Work has been obstructed by the inability of the Guatemalans to overcome some procedural and governmental obstacles.

It was decided to recommend to the Embassy that it, in turn, recommend to the President that he order the workmen contemplated for the highway job be hired immediately and without waiting for solution of the problems which have been holding up the program. Thus, the objective of increasing employment can be achieved immediately and will not be further postponed pending the solution of the preliminary problems referred to.

As regards development of a practical economic program, it was decided that a contract between FOA and Klein and Saks[2] is the first step. This has been held up because of haggling between FOA and Klein and Saks on relatively minor points. It was decided to ask the Secretary to telephone Mr. Stassen on January 24 and urge immediate execution of a contract with a minimum of delay. Likewise, a letter from the Secretary to Mr. Stassen making the same request was drafted.[3]

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[1] Source: Department of State, Central Files, 814.00–TA/1–2255. Confidential.

[2] A firm of economic consultants whose director, Julius Klein, served as Assistant Secretary of Commerce, 1929–1933.

[3] Document 19.

Discussion was had of a long series of complaints against the Embassy relayed from the President through the Guatemalan Ambassador[4] to Mr. Fisher of ARA. It was decided that Holland would talk to the Ambassador about these complaints and that their substance and the Department's plans would be cabled to the Embassy. The cable was sent.[5]

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[4] José Luis Cruz Salazar.

[5] *Infra.*

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17. Telegram From the Secretary of State to the Embassy in Guatemala[1]

Washington, January 22, 1955—8:47 p.m.

429. Eyes only Ambassador and Counselor. On return from Guatemala Ambassador Cruz in informal conversation told Fisher ARA President Castillo had personally made following charges to him:

Cordova Cerna[2] is President's enemy; works against Castillo and criticizes him freely for incompetence; Cordova sees Embassy officers with excessive frequency without reporting to President; procured removal of Ambassador Peurifoy[3] by false representation to Department that President so desired; secured Mann's appointment as person with whom he could work. After repeating foregoing accusations by President Ambassador Cruz made personal assertion he believed Cordova paid off certain army officers for disloyal purposes.

President asserts Embassy unfriendly his regime and Ambassador and Counselor excessively friendly toward Cordova; Mann too close large US companies, especially UFCO and IRCA.

President asserts UFCO furthering its private interests versus national interest. Gave as example company's failure give up control Guatemala's principal port; asserts UFCO exerts various kinds pressure on Guatemala; asserts company endeavors utilize Embassy support. Gave as specific example UFCO collaboration with Cordova to delay US aid to Guatemala in order improve company's bargaining position in contract negotiations last month.

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[1] Source: Department of State, Central Files, 121.142/1–2255. Secret; Limit Distribution; Niact. Drafted and approved by Holland.

[2] Juan Córdova Cerna, a civilian member of the Junta of Government which assumed control of Guatemala following the resignation of President Jacobo Arbenz in June 1954.

[3] John E. Peurifoy, Ambassador in Guatemala, November 4, 1953–October 2, 1954.

Cruz states he insisted Castillo misinformed and believes he partly removed misapprehension but President's attitude is still cause for concern.

Cruz said he would not take matter up formally but hoped help clear up Castillo's misunderstandings without adverse effects Embassy officers or affecting relations. He suggested (1) Counselor take advantage his recent excellent talk with Cruz on subject Guatemalan port problem to take up same matter with Castillo and at same time clarify Embassy's total position re abstention from internal politics, its relations with American companies, etc.; (2) Embassy cultivate closer relations with President's ranking confidant Major Oliva[4] with less emphasis on contact with Cordova.

According reliable information from another source Cruz returned from Guatemala with Castillo's instructions to obtain removal Ambassador and Counselor. According this source Castillo was embittered by his accumulating difficulties including alleged inadequacy US aid attributing latter in part to what he thought was Embassy's unsympathetic attitude as result influence American companies and Cordova. Same source states Cruz realized only after arrival here inadvisability making representations as instructed and decided minimum compliance would be approach Department desk officer on basis their personal friendship limiting statement to Castillo's misunderstanding concerning Counselor.

Holland proposes inform Cruz circumstances regarding Peurifoy's replacement and Mann's appointment; explain delay in arrival US aid due administrative difficulties in Washington; emphasize Department's full support of Ambassador and Counselor; state Department reporting substance Cruz conversation to you with request you see President.[5]

You may consider discussing foregoing with President direct emphasizing your willingness deal with those government officials he designates. In order ensure coordination Embassy and Department kindly cable your views by Monday morning for use in conference now scheduled with Ambassador Cruz for twelve o'clock. To avoid prejudicing Cruz suggest you not see President until Department reports on Monday conference. No reference should be made to information received from reliable source other than Cruz.[6]

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[4] Enrique Trinidad Oliva.

[5] Document 20.

Dulles

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[6] The Embassy responded to these statements in telegram 459 from Guatemala City, January 23. (Department of State, Central Files, 714.00/1–2355)

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18. Memorandum of a Telephone Conversation, January 24, 1955[1]

SUBJECT

Guatemala

PARTICIPANTS

Ambassador Norman Armour, Guatemala
Assistant Secretary Henry F. Holland
Mr. Thomas C. Mann, Counselor of Embassy, Guatemala

Mr. Holland called Ambassador Armour and said that, as a result of his conversation this morning, Ambassador Armour should go ahead with the conversation Mr. Holland suggested, and should find an opportunity to express our gratitude for the discreet and constructive way in which the views of the problem were brought to us by the man here.[2] This will enable us to dissipate this matter which has no basis and will give us an opportunity to come to grips with real problems in the future. Ambassador Armour asked what he should express gratitude for. Mr. Holland replied for the fact that he brought the matter to our attention. Ambassador Armour said he would avoid the use of the word "gratitude" and would have to express surprise that the matter was not taken up with him there. Mr. Holland suggested that he express the matter as he thought best.

Mr. Holland said that the person here was deeply concerned about his situation.[2] Ambassador Armour asked whether the person might not have been acting under instruction. Mr. Holland said it was his impression that he was reporting facts and taking a step which he felt would be constructive. Mr. Holland added that the man asserted that he had no instructions. Ambassador Armour said that threw a different emphasis on the picture, and that he would see how the matter should be handled.

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[1] Source: Department of State, Central Files, 714.00/1–2455. Confidential. Drafted by Viola M. Keskinen of the Bureau of Inter-American Affairs.

[2] Apparent reference to Ambassador Cruz.

Mr. Mann then came on the telephone and Mr. Holland repeated that he was of the opinion that they (the Embassy) will have a good opportunity to dissipate the entire problem and we will be in a position to deal with real problems in the future. Mr. Mann said he agreed.

Mr. Mann then asked what about the other meeting—the meeting in Washington. Mr. Holland said he would go ahead and work out the other conversation, but asked Mr. Mann not to delay any action on that account.

Mr. Mann asked that Mr. Holland send the Embassy copies of memoranda of his conversations.

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19. Letter From the Secretary of State to the Director of the Foreign Operations Administration (Stassen)[1]

Washington, January 24, 1955.

DEAR HAROLD: I am quite concerned by reports which are reaching me regarding the situation in Guatemala. It appears that the stability of the present government is imperiled by a number of factors, one of the most important being widespread public belief that the government has developed no practical, constructive program for strengthening the country's economy.

I am advised that our respective people concerned with this problem agree upon the desirability of FOA's executing a contract with some recognized firm of economic and fiscal consultants which could send to Guatemala rapidly and for such periods as might be desirable a wide variety of experts. I am advised that negotiations have been in progress with the recognized firm of Klein & Saks since the middle of December, but that agreement upon a specific contract is being held up by failure to settle several subsidiary items such as maximum per diem salaries which the contractor might pay to experts employed by it.

In view of the increasing urgency of the political and economic situation in Guatemala I hope that a contract with this particular firm or some other comparable group can be executed as quickly as possible and that performance thereunder can begin immediately thereafter. The presence in Guatemala of such experts as could be provided immediately under such a contract may well prove to be a decisive factor in preserving the stability of the present government whose increasing insecurity is the cause of such concern to both of us.

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[1] Source: Department of State, Central Files, 714.5–MSP/1–2455. Secret. Drafted by Holland.

I would be grateful if you would look into this problem and let me have your views as to whether it seems feasible within the next few days to executive [*execute*?] a contract and initiate its performance.[2]

Sincerely,

JFD

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[2] In a letter dated January 27, Stassen informed Secretary Dulles of the status of the Klein and Saks contract as follows: "I have been advised that all outstanding items of negotiation were resolved with the contractor and that a contract is now being drafted in final form and is expected to be signed momentarily." (*Ibid.*, 814.00/1–2755)

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20. Memorandum of a Conversation, Department of State, Washington, January 25, 1955[1]

SUBJECT

Guatemala: Relations between President Castillo Armas and the American Embassy

PARTICIPANTS

Ambassador José Luis Cruz Salazar of Guatemala, Mr. Holland and Mr. Fisher.

Mr. Holland said that Mr. Fisher had informed him about his conversation with Ambassador Cruz. He understood that Ambassador Cruz was interested in learning whether Sr. Cordoba Cerna had had anything to do with the transfers of Ambassador Peurifoy and Mr. Mann.

Ambassador Cruz said that Sr. Cordoba Cerna himself had told President Castillo Armas that he had obtained the transfer of Ambassador Peurifoy and secured the appointment of his friend Mr. Mann as Counselor. President Castillo Armas suspected that Cordoba Cerna had given the United States Government to believe that President Castillo desired Ambassador Peurifoy's removal. Ambassador Cruz was to inform the Department of State that President Castillo had nothing to do with it. Ambassador Cruz said he had learned from the President only during his recent visit to Guatemala about Cordoba Cerna's trip to Washington last summer, and about his claims to have influenced the Department. Ambassador Cruz said that had he known sooner, he would have clarified the President's position to the Department before this.

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[1] Source: Department of State, Central Files, 121.14/1–2555. Secret; Limit Distribution. Drafted by John W. Fisher of the Office of Middle-American Affairs.

Mr. Holland said he could inform Ambassador Cruz categorically that there was no truth to the statement that Sr. Cordoba Cerna had influenced the transfers of either Ambassador Peurifoy or Mr. Mann. The decisions on these transfers were taken before Sr. Cordoba Cerna called at the Department. Secretary Dulles decided that Ambassador Peurifoy was urgently needed in Thailand because of the situation there and Mr. Holland had to persuade him to postpone Ambassador Peurifoy's departure from Guatemala for a month and a half because of the great importance to us of the developments there. Mr. Dulles chose Ambassador Armour to succeed Mr. Peurifoy, calling him out of retirement because of our desire to have in Guatemala the best man to be found. Mr. Armour is a giant of our Foreign Service. Mr. Holland personally selected Mr. Mann to work under Ambassador Armour in order to form the best possible team in our mission in Guatemala. Mr. Holland said that in his opinion Mr. Mann is unexcelled in ability among American Foreign Service Officers of his age and rank.

Mr. Holland said that the President's suspicions about Ambassador Armour and Mr. Mann were, of course, utterly false. He said that the United Fruit Company did not guide United States foreign policy decisions, and that, on the contrary, the United States Government from time to time found it necessary to guide and restrain the company in certain ways. Ambassador Armour and Mr. Mann never acted except in the interests of the United States. Ambassador Cruz agreed and said he insisted to President Castillo that this was so. He had discussed at length with Mr. Mann various aspects of the United Fruit Company problem and thought Mr. Mann was fully aware of its delicate nature. Ambassador Cruz thought that President Castillo Armas would sincerely welcome the Embassy's frank opinion on political questions, and would appreciate being informed when he was making mistakes. Ambassador Cruz mentioned Mr. Mann's recommendation to him that the Guatemalan Government present problems to the United States with a little less precipitousness as an example of a valid and helpful suggestion.

Mr. Holland said that our objective was to clear up the President's misunderstandings about the Embassy, which raised a false obstacle to the most effective solution of the abundant real problems facing Guatemala and the United States. Mr. Holland was convinced that the best way to do this was for Ambassador Armour and Mr. Mann to go to the President and inform him that, according to information received from Mr. Holland in a personal communication, there existed some misunderstandings which should be cleared up. Mr. Holland said that they would then proceed to have an open and frank discussion which would dissipate the false impressions which the President held.

Ambassador Cruz said the solution he had in mind and which he had already suggested to Mr. Fisher was that Ambassador Armour and Mr. Mann call on the President to discuss the problem of the return of the ports from the United Fruit Company to the Government. They would say that they had already discussed this with Ambassador Cruz and wished to take it up with the President. They would take the opportunity afforded to clarify their position on all of their points bothering the President, thus dispelling his doubts.

He felt that the President had spoken with him in confidence concerning the Embassy, and did not expect that he would report it to the United States Government. Although he preferred his own suggestion, he would readily accept Mr. Holland's decision to proceed as he had indicated.

Mr. Holland said he was convinced that the direct approach was the only way to clear it up adequately. He was also convinced that it would not damage Ambassador Cruz's position but would enhance it. The United States was grateful to Ambassador Cruz for providing the opportunity to remove a source of unnecessary difficulty. Mr. Holland emphasized that the United States had no desire to do any injury to Ambassador Cruz and he was certain that the course he outlined would produce favorable results for Ambassador Cruz personally.

21. Memorandum of a Telephone Conversation, January 25, 1955, 12:15 p.m.[1]

SUBJECT

Guatemala

PARTICIPANTS

American Ambassador Norman Armour—Guatemala, Guatemala
Mr. Thomas C. Mann, Counselor, American Embassy, Guatemala, Guatemala
Assistant Secretary Henry F. Holland

Amb. Armour telephoned and referred to Mr. Holland's telegram to him and Mr. Mann.[2] He said his first reaction was that it was a bombshell. Since then they have tried to think up constructive suggestions to give on how to smooth out the situation. Amb. Armour said Mr. Mann would explain one or two suggestions but asked if, in the meantime, Mr. Holland had talked with Amb. Cruz. Mr. Holland said he had stepped out of his meeting with Amb. Cruz to take this call.[3] Amb. Armour said he would like to be advised by telephone of that transpired at that meeting. Amb. Armour asked if Mr. Holland knew if Amb. Cruz was going down to Guatemala. Mr. Holland said he would find out. Amb. Armour [said] that, putting aside all personal feeling, he had in his cable to Mr. Holland set up his analysis of the causes of the problem. Now they had some more analysis to give him. Mr. Holland said that insofar as his analysis went, he thought they were 100% accurate. Next it was Mr. Holland's feeling that some sort of course of action as suggested in the cable to them would completely eliminate the problem.

Mr. Mann said that their telegram 459[4] was done very quickly on Sunday afternoon. Since they sent it they have had more time to think it through since it was a surprise to them there. Mr. Mann said when he hit town in September he was handed a request for $260 million. He said there was severe disappointment when he told them it was unrealistic and when [*then*?] they shifted to programs that could be carried out. Disappointment was caused by US promoters, carpetbaggers and others who were all promising how easy it was to get it. An air of expectancy had been created by statements in Congress, by the press and others. They had a proposal for a highway network covering the country at an estimated cost of $60 million. He said that they had had a talk with the people there (including the top people) about it and convinced them that they could proceed road by road and not talk in terms of program now but in terms of work as the banks are ready to move. That was a shock and a disappointment as Mr. Mann looks back on it now. He said he is not even sure he is right. They say that if everybody wants to give them a large deal of $60 million, there must be somebody sabotaging it and who would be doing that except the American Embassy, and why would the Embassy do it except that they are talking with other elements who are of the same mind and so there must be a conspiracy to hold up economic recovery to help others come in. Mr. Mann said this was the situation we have to face up to.

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[1] Source: Department of State, Central Files, 714.00/1–2455. Confidential; Limited Distribution. Drafted by Mabel Karydakis, Holland's personal secretary.

[2] Document 17.

[3] See the memorandum, *supra.*

[4] See footnote 6, Document 17.

There are two ways to eliminate the distrust. One is for the Ambassador and Mr. Mann to talk to the President in Guatemala explaining to him, as they have tried to do there, what the realities are in Washington and that it is according to US policy. Mr. Mann said Mr. Holland couldn't do any more than they could in Guatemala because they suspect the entire State Department. Twice the Guatemalans have talked about going straight to the White House. The other course and the one Mr. Mann recommends is to have the President or the Secretary call in the Ambassador so that the Guatemalans would know that what the folks are telling them is not correct. He thinks, however, that it is a policy decision for the Department to make. He thinks if this were done then they would have a reasonable chance to work out the details. If not, it would be futile to try to get anywhere.

Mr. Mann said that he has reason to suspect that the allegations about our relations with the companies, etc., by the Ambassador up here is because it is evident that he has a bias against them. There is no evidence that responsible people down there share that opinion. Mr. Mann said he could be wrong but he doesn't think so.

Mr. Mann said they wanted Mr. Holland to have this analysis before he talked with Amb. Cruz.

Mr. Holland said he believed that these things are sensible: First, that the conference recommended in his cable to them should be held and should be frank and sparse and objective. Mr. Holland said he had the hunch that if it is held much of the problem will disappear. He has the further hunch that the conference Mr. Mann suggests Mr. Holland work up with the Secretary will be helpful. The combination of the two talks will achieve the results we want. However, he would not want them to postpone their talk there until the talk takes place up here and they should go right ahead.

Amb. Armour asked if the Secretary would see the exchange of telegrams. . . . Mr. Holland said that he would arrange that.

22. Telegram From the Ambassador in Guatemala (Armour) to the Department of State[1]

Guatemala City, January 25, 1955—6 p.m.

462. Mann and I had a long and satisfactory talk with Castillo late afternoon January 24 (Deptel 429). I began by saying we were informed Ambassador Cruz had made certain statements concerning my Embassy which the Department considered useful in clearing up possible misunderstandings. Cruz statements could be divided into three main categories—(a) the amount of American aid (b) Embassy's relations with Cordova Cerna (c) Embassy's relations with officials American companies. Did the President wish to comment on these subjects?

President forthrightfully expressed his dissatisfaction with lack progress in economic field. He said Guatemala was show-case for entire world to see and economic failure his regime would have far-reaching consequences. The question was what to do to get things moving now rather than in future. He needs more aid and advice. He referred particularly Pacific coastal highway and mentioned corn shortage. He said Ambassador Cruz had been asked deliver letter President Eisenhower which stressed Guatemala's urgent needs and invited President to send representative here to survey situation. He did not know whether letter had been delivered.

We expressed our general agreement with these views and reminded him of accomplishments since mid-September. We said first four months were hardest and were confident fruits our past and future efforts would, with necessary cooperation of government, begin to show more and more in months to come. Regarding Pacific highway, USOM had been ready since December 21 pay bills, but due to government's vacillation in first preferring private contractors, then caminos, then private contractors again, followed by dismissal of Minister Communications, had resulted in loss month for which we would not accept responsibility. We did, however, regret loss of time between mid-September and mid-December in obtaining decision on aid and arranging for disbursements. Re corn: Did President realize that Washington had in substance offered make available over million dollars worth corn at only nominal cost Guatemalan Government and that only problem was formula might have resulted delay in construction Pacific highway.[2] He said this had not been adequately explained to him by his Ministers. There followed constructive discussion positive steps that could be taken which will be reported separately.

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[1] Source: Department of State, Central Files, 814.00/1–2555. Secret; Limited Distribution.

[2] Discussions between officials of the Department of State and the Foreign Operations Administration concerning a donation of corn to Guatemala began in late (Continued)

President expressed surprise and ignorance Cruz' remarks on subjects our relations with Cordova Cerna and with officials American companies. Remarked Cordova apparently working loyally at present and referred to recent cordial conversation with official UFCO. Volunteered he had at no time expressed dissatisfaction with efforts Ambassador or Counselor. Agreed he and I should meet regularly each mid-week for review problems and is to dine with me on Thursday. To protect Cruz, I emphasized we were not complaining actions his Ambassador who seemed to be trying his best serve Castillo.

We conducted conversation with the dignity which the situation demanded. If this Embassy is to be effective in discharging its many responsibilities here it must and will be respected. After President disavowed any dissatisfaction with Embassy, conversation was cordial.

We are more convinced than ever (Embtel 459) that aside from his immediate political problems, Castillo's main concern is failure get a public works program started quickly and frustration at delay in dealing effectively with agrarian reform, labor, and other problems pressing in on him. There are moments when he seems almost pathetic. He must literally be led by the hand step by step. It will be a difficult task to do this without arousing nationalistic reactions, but we intend expand scope our efforts with Klein and Saks as one of main vehicles.

It is relatively easy plant in his mind suspicion that Embassy responsible for delay in getting financial and technical aid programs going, and from this to suggest ulterior motives and conspiracies with real and fancied opposition elements. To degree which we cannot precisely determine, we believe Cruz added to and embroidered on what President actually said. Whether these or similar charges are made in future will probably depend on whether he can get his government operating smoothly and effectively and on whether he gets aid quickly and in what he considers adequate quantity.

Armour

(Continued)

December 1954, and continued intermittently into 1955. The first shipment of corn to Guatemala was approved in April 1955; for additional infomation, see the Department of State *Bulletin*, August 1, 1955, p. 196.

23. Memorandum of a Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and President Castillo Armas, Guatemala City, February 14, 1955[1]

I outlined to the President our views on a number of points:

General U.S. Attitude Towards Guatemala

The President, Vice-President, Secretary of State and all top U.S. Government officials have a constant and intense interest in seeing that the Government headed by Colonel Castillo Armas is successful. Our Government assigned to Guatemala an Ambassador whose prestige and recognized abilities serve as a measure to the world of the importance which we attach to the success of his Government. We assigned to the Embassy one of the most capable younger Foreign Service Officers to insure that the Ambassador would have vigorous resourceful support in his task. I was particularly interested in the assignment of Mr. Mann because my long close contact with him has given me complete confidence in his judgment and ability to meet fully the very difficult problems of his assignment. I assured the President that through the Ambassador and Mr. Mann, he had rapid and constant access to all officers and agencies of our Government and that, if he accepted my assurances regarding our desire to support him, he could get maximum benefit from these policies through close constant and detailed contact with the Ambassador and the Counselor.

The president thanked me for these expressions and emphasized his confidence in our officers here. He explained the great difficulties which he is encountering in his task, mentioning particularly the lack of experienced and capable personnel. He said that he himself was poorly prepared to cope with many of his problems and that he desperately needed advice and guidance from us.

Oil Legislation

I explained that I was a lawyer, only recently entered in Government service, and that much of my practice had been in the petroleum field; that a few days ago I had seen a memorandum on a draft of an oil law which had gravely concerned me in that the terms were such as would logically obstruct the entry of responsible oil companies into the local field. I said that I feared it might facilitate the entry of a few companies, but at the expense of broad access to the entire industry which was essential to the development of a strong, well-balanced and aggressive oil development. The President said that the proposed legislation had been recommended to him by Lic. Cordova Cerna; that Mr. Mann had criticized it, and that he was rejecting it. I said that while Mr. Mann had been out of the law practice for a number of years, he had a considerable background in the petroleum field, and that his judgment on the essentials of a sound law would be excellent. I pointed out that the President had access to advice from Mr. Batzell's representative and from Mr. Merritt. He said that he would utilize their help, but that he would reach no final decision without consulting with Mr. Mann. I said that this course would gratify me as I was sure that Mr. Mann would give me an opportunity to comment on any proposed final decisions; thus the President's proposal would assure him of whatever help I could give on the subject as well.

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[1] Source: Department of State, Central Files, 611.14/2–1655. Confidential. This memorandum of conversation was forwarded to the Department as Enclosure 1 to despatch 699 from Guatemala City, February 16. Assistant Secretary Holland accompanied Vice President Nixon on a tour of 11 countries of Central America and the Caribbean, February 6–March 5. The group was in Guatemala, February 12–15. In despatch 690 from Guatemala City, February 24, the Embassy recorded its impressions of the Guatemalan response to Nixon's visit. (*Ibid.*, 814.00–TA/2–2455) Additional documentation on the Nixon trip is *ibid.*, 033.1100–NI.

I emphasized the importance of adopting a complete petroleum law rather than piece-meal regulations which would force oil companies to make decisions on such matters as exploration without knowing just what the regulations would be on other phases of the industry.

Economic Programs

The President discussed generally the importance to his Government of an effective economic program and of measures to reduce unemployment. I replied that an economic program required adequate planning, effective personnel and adequate financing. As to the planning, we would help as much as we could on the problem of personnel, the recent FOA contract with Klein and Saks should greatly increase our assistance. On the question of financing, I said that there were several ways that we could be helpful:

1. Grant aid such as that which we are giving for the Roosevelt Hospital and the Pacific Highway. I explained that it was difficult for us to give large amounts of aid in this category because it inevitably provoked requests from other governments to whom we were not giving grant assistance. I said that I felt we could continue some grant aid, but that I hoped he could understand the serious problems that it caused us.

2. Inter-American Highway. I explained that grant aid for the completion of the Inter-American Highway was much easier for us because our Government and our Congress were accustomed to thinking of grant aid for this project, and that appropriations for this purpose would not provoke requests from other governments, be-

cause it was generally recognized in the hemisphere that this was a long time goal of our Government.

3. Loans to His Government. I explained that such loans could come from the International Bank and the Export-Import Bank. Every effort should be made to obtain maximum advantage from International Bank financing because the institution is well disposed, its personnel are extremely capable and, of course, it has abundant resources. I pointed out that in the event that projects were unduly delayed in the International Bank they could always be removed to the Export-Import Bank but that every effort should be made to coordinate the services of the two banks to insure maximum benefits to his Government. I stated that under certain conditions the Export-Import Bank could finance both the dollar and the Quetzal components of projects.

4. Loans to Private Enterprise. I explained that our policy is to intensify the activities of the Export-Import Bank, and that it is prepared to make economic development loans to private enterprise without governmental guarantees. I pointed out to him that this is an important additional source of capital, one the utilization of which will not reduce the borrowing capacity of his Government if loans are obtained without governmental guarantees.

He then mentioned two proposals which have been submitted to the Government by private companies. One is submitted by Baister International Inc. of Miami, Florida, and relates to a housing project on government lands. The other is a proposal submitted by an engineering company to complete the Atlantic highway upon condition that the investment could be amortized through a 10 cent gasoline tax. I said that I could not express an opinion on these proposals, but would report them to the Embassy.

Coffee Prices

He expressed his concern about the falling coffee prices. I said that I wanted to eliminate from his mind any question as to whether it was the purpose of our Government to depress the price of coffee. I said our policy was to permit the price to be determined by the free influence of the factors of supply and demand. I described to him the decision of the Bell Senate Committee, recommending that the coffee be subjected to Government regulation and said that I felt sure that for the immediate future the policy of our Government would be to avoid any attempt to regulate coffee prices.

German Problem

He said his Government was troubled by the insistence of the former owners of German coffee fincas upon the return of their properties. The refusal of the Arbenz regime to return these properties had been politically popular, and his Government would be criticized if it were to do so. He said that he was willing to pay a token indemnity of $10 or $15 million for the properties, but that he would not return them. He said he was willing to discuss the problem in Guatemala or in Washington, but that he would not accept proposals for its discussion in El Salvador.

I said that I was not prepared to discuss the matter myself but that I would report his views to our Government.

Establishment in Guatemala of a Branch Office of an American Bank

The President said he was very anxious to persuade some American bank to establish a branch office in Guatemala and mentioned Chase and the National City Bank. He said that he felt the volume of banking business would justify such an investment. I said that obviously I could express no opinion on the matter, but that I would be glad to discuss it with our banking contacts.

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24. Telegram From the Ambassador in Guatemala (Armour) to the Department of State[1]

Guatemala City, February 15, 1955—4 p.m.

493. For Dulles from Nixon. My personal observations here supplemented by conferences with Embassy and government officers including President convinces me that vigorous US support essential to preserve in power the first government in history resulting from overthrow of a Communist regime. Failure abundantly to insure stability this government would mark loss of opportunity which may not recur for years; will discourage oppressed peoples everywhere in world and would reflect unpardonable inaction on part US Government. I appreciate efforts of various government agencies heretofore but I am convinced they have been inadequate and that danger to Castillo Armas' government is increasing. I urgently recommend to you, to President and all members cabinet following program.

1. Strong support for Congressional appropriation next fiscal year adequate to complete and pave inter-American highway Guatemala City to Mexican border. Bureau public roads estimates total cost $27 million. Completion highway will produce increase in tourist trade which is critically needed and afford solution grave unemployment problem. Financial straits Guatemalan Government caused by robberies Arbenz regime and falling coffee prices make it

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[1] Source: Department of State, Central Files, 033.1100–NI/2–1555. Confidential; Priority.

essential US contribute entire $27 million including Guatemalan share cost completing inter-American highway.

2. International Bank should lend dollar component cost completing Pacific coastal highway and Guatemala-Puerto Barrios highway both essential economic development of country and crucial in solving unemployment problems plaguing government. FOA funds available next fiscal year for highway purposes estimated not less $3 million should be used defray local currency costs these two highways leaving burden on Guatemala to supply balance local currency cost estimated approximately $10 million.

Announcement that administration and International Bank will support foregoing program for next fiscal year will have decisive political and psychological effect here and will in my judgment give Castillo Armas government stability necessary to continue in power and carry out its programs for economic development Guatemala. Achievement this end so important to US throughout world that we cannot afford to haggle as to whether few millions less or few months more delay would be dangerous. I feel strongly limitations amount aid granted heretofore and delays in its extension have gravely imperiled basic and vital interests US in world-wide fight against Communism. I urge complete revision our approach regarding aid to this government and realization measures generally applicable in this hemisphere must not control our decisions regarding Guatemala.

Foregoing comments and recommendations have complete approval Ambassador and Counselor as well as Chief, USOM, representative International Bank, and Assistant Secretary Holland.

In submitting foregoing recommendation regarding financing inter-American highway I am not foreclosing possibility that during or after my trip through area I may recommend additional appropriation for further work on highway in other Central American countries. I am more and more convinced that there is nothing which our government can do in this area which will serve our foreign policy as effectively as would completion of this highway to the Panama Canal.

Recommend this cable be repeated to International Bank with request that it advise urgently whether it will promptly grant Pacific Coastal and Guatemala City–Puerto Barrios loans. If it cannot they should immediately be referred to Export-Import Bank.[2]

Armour

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[2] A handwritten notation beside this paragraph indicates that these recommendations were carried out by the Bureau of Economic Affairs.

25. Letter From the Deputy Under Secretary of State for Political Affairs (Murphy) to the Director of the Foreign Operations Administration (Stassen)[1]

Washington, March 4, 1955.

DEAR MR. STASSEN: The enclosed letter of January 12, 1955, from the Assistant Secretary of Defense, Mr. Struve Hensel,[2] proposes that the President be requested to make the findings which are required by the Mutual Security Act of 1954 to establish the eligibility of Guatemala for grant military assistance under a bilateral military assistance agreement.

In addition to the United States military advantage of a bilateral agreement with Guatemala, in which that country would agree to commit certain of its armed forces for hemisphere defense, the Department of State believes that the provision to Guatemala of grant military assistance under such an agreement would assist in the attainment of important United States political objectives in Guatemala. The present Guatemalan Government, which came to power by removing a communist-controlled government, is the recipient of United States economic assistance intended to help stabilize the economy of the country and assist the present Government in maintaining popular support for its anti-communist policies. However, the economic assistance being provided makes no direct contribution to winning and maintaining the support of Guatemalan Armed Forces, which probably will assert the determining influence in any political crisis. In the opinion of the Department of State, a bilateral military assistance agreement with the United States would have considerable appeal to Guatemalan Armed Forces and be a major step in the direction of assuring their continued support of the present non-communist Government.

I recommend that the President be requested to establish the eligibility of Guatemala for grant military assistance by making the following determinations required by the Mutual Security Act of 1954: that the increased ability of Guatemala to defend itself is important to the security of the United States (Section 105 (a)); that defense plans require Guatemala to participate in missions important to the defense of the Western Hemisphere (Section 105(b) (4)); and that the furnishing of military assistance to Guatemala will strengthen the security of the United States and promote world peace (Section 141).[3]

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[1] Source: Department of State, Central Files, 714.5–MSP/1–1255. Secret. In a memorandum dated March 2, Sparks forwarded a copy of this letter to Acting Secretary Hoover, with the recommendation that he sign it. In a note dated March 3 to John Goodyear, Special Assistant to Deputy Under Secretary Murphy, Robert K. Sherwood of the Executive Secretariat recommended that Murphy, rather than Hoover, should sign the letter to Stassen.

[2] Document 14.

Sincerely yours,

Robert Murphy[4]

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[3] In a memorandum to the President, April 30, Stassen transmitted the recommendation of the Departments of State and Defense that the President make the necessary findings prerequisite to granting military assistance to Guatemala. (Department of State, Central Files, 714.5-MSP/5-555) In a memorandum to Stassen, May 2, President Eisenhower authorized the initiation of negotiations with Guatemala looking toward a military assistance agreement under the provisions of the Mutual Security Act of 1954. (*Ibid.*) Talks between representatives of the United States and Guatemala began in Guatemala City on June 10. An agreement was signed on June 18, and entered into force on that date. For text, see 6 UST (pt. 2) 2107. For additional information, see press release 339, June 10, Department of State *Bulletin*, June 20, 1955, p. 1019; and press release 367, June 20, *ibid.*, July 11, pp. 85-86.

[4] Printed from a copy which bears this typed signature.

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26. Memorandum From the Deputy Director of the Office of Regional American Affairs (Jamison) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, March 21, 1955.

SUBJECT

Assignment of Intelligence Advisers to U.S. Army Missions in Latin America

The Ambassador of Guatemala has requested the Army to assign an intelligence adviser to the U.S. Army Mission in Guatemala. This adviser is to set-up a program in the Guatemalan Army to train personnel in internal security and counter-intelligence. The Army has already indicated that it will supply the requested officer if the Department of State concurs.

The Army has heretofore consistently refused to provide such personnel for assignment to military missions in Latin America because the Army considered it would result in disclosure of its counter-intelligence measures. The present decision on the part of the Army to supply the requested personnel represents a change of policy. The Army has indicated that it would be prepared to supply such personnel to other countries in Latin America if requested to do so.

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[1] Source: Department of State, Central Files, 714.58/3-2155. Confidential.

The assignment of an intelligence adviser to perform the function of training military personnel in internal security and counterintelligence raises the question of whether such an assignment will serve as a precedent for the assignment of such advisers to missions in other countries where their advice may be used to help control the non-communist opposition rather than communist or other actually dangerous subversives. This danger should be recognized and we should insist that any approval of the Guatemalan request is based upon unique circumstances and that any future request for such an assignment be reviewed by the Department. In the specific case of Guatemala, the assignment of a qualified intelligence adviser might help establish closer relations with the military so that we could keep better informed on its activities. On the other hand, the Guatemalan military might consider such an intelligence adviser a threat to any plot which it might be hatching against the government and the Guatemalan military might be even less willing to take our military into its confidence.

In view of the special circumstances in Guatemala with respect to the maintenance of internal security, and in view of the fact that the President of Guatemala has requested this intelligence adviser and Amb. Armour has concurred in this request, through a letter to General Trudeau,[2] it is recommended that the Army be informed that we concur in supplying the requested officer. It is suggested that the Army also be informed that we consider this case unique and we desire to be consulted if similar requests are received from other Latin American governments, so that such requests may be considered on their merit. At the same time, it is suggested that Amb. Armour be informed of this action and that he be requested to pay particular attention to the manner in which the activities contemplated by this assignment are carried out to insure that they are confined within proper limits and assist in the achievement of our objectives.[3]

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[2] Major General Arthur G. Trudeau, Assistant Chief of Staff for Intelligence.

[3] In a memorandum of March 24, George O. Spencer, Acting Officer in Charge of Inter-American Military Assistance Affairs, informed Colonel William F. Kaufman, Chief of the Latin American branch, G–3, Department of the Army, that the Department of State approved the assignment of an intelligence adviser to the U.S. Army mission in Guatemala. (Department of State, Central Files, 714.58/3–2455)

27. Memorandum of Conversations, Department of State, Washington, April 28–29, 1955[1]

SUBJECT

Current Situation in Guatemala and Projected Aid Program

PARTICIPANTS

ARA—Mr. Holland, Mr. Sparks, Mr. Krieg
AmEmbassy—Guatemala—Mr. Mann
MID—Mr. Newbegin, Mr. Fisher

Ambassador Cruz Salazar

Mr. Mann said the Guatemalan Ambassador to Washington constituted a problem. He felt left outside of affairs, and complained of inadequate liaison with our Embassy in Guatemala. He was obviously annoyed and frustrated because the substantive relations with Guatemala were being conducted through our Embassy in Guatemala, and Mr. Mann thought that this had caused the Ambassador resentfully to poison the minds of high officials in Guatemala on occasions when he returned there on consultation. Mr. Mann suggested that Mr. Fisher should meet with Ambassador Cruz regularly to keep him as fully briefed as possible. All agreed.

Army

Mr. Mann said that Castillo Armas must keep the key colonels on his side to stay in power. The Embassy believes that he has been alienating some of them by some of his policies, such as the treatment given to Monzon.[2] Castillo is now in a stalemate with the Minister of Defense, Colonel Close,[3] who is probably the most outstanding military figure in the country now, and appears to be a capable and intelligent army officer. Castillo would probably have removed him before this if he had the strength. Colonel Niederheitmann, Colonel Mendoza, and other liberation figures with army background advised Castillo against firing Close now, as Close might simply move into the presidential office. Mr. Mann said that the question of handling the army was the only one in which the Embassy had not become involved. Castillo Armas evidently considered himself able to make decisions on this without help from outside his own inner circle.

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[1] Source: Department of State, Central Files, 714.00/4–2955. Secret. Drafted by Fisher, Officer in Charge of Guatemalan Affairs.

[2] Colonel Elfego Hernan Monzon Aguirre was a member of the Junta of Government which assumed control of Guatemala following the resignation of President Arbenz in 1954.

[3] Lieutenant Colonel Enrique Close de León.

Mr. Holland inquired whether the Army Attaché was qualified, and when informed that a replacement was due to arrive shortly, he put in a telephone call to General Trudeau, who was said to be personally acquainted with the new man. Mr. Mann said he would not advise that the Army Attaché endeavor to mold the political thinking of Guatemalan army officials. This was the most delicate possible kind of activity which could more than likely blow up in one's face.

Conservative Groups

Castillo's immediate political opposition is in the conservative groups, of which Juan Cordoba Cerna is a leading figure. Many members of these factions subscribe to extreme measures and openly claim they would like . . . to purge Guatemala of its alleged Communist population. These men . . . bring great pressure on Castillo.

Arbencista Elements

Mr. Mann said the Leftist and Communist groups are still dispersed, although activity is picking up. Our intelligence on this is increasingly good, as is our intelligence on the Government.

Current Political Atmosphere

Mr. Mann described Guatemala politics as an incredible maze of intrigue, fathered by ignorance, inexperience, and native suspicion. He cited the example of Clemente Marroquin Rojas' attack on Mr. Mann for allegedly recommending his expulsion. The Embassy had learned that the story came from inside the palace, where someone was busily adding to the thick layer of lies and rumors which covered the city, and which holds up the business which has to be transacted. President Castillo trusts no one, and seems to believe the last man who has spoken to him, in many cases. Not even his own cabinet ministers can be informed of matters discussed by the President with the Embassy. A further complication is the presence of John Dougherty, who has the President's ear. The Embassy believed he was misleading the President, . . . Jerry DeLarm was apparently lying low, for the time being, at least. His was strictly a problem of money. . . .

Pacific Slope Highway

Mr. Mann said that Guatemala was unable to meet its commitment under the February agreement to contribute $1,500,000 to the Pacific Slope Highway. He recommended that we consider amending the agreement to make it realistic. All agreed.

Economic Developments.

Mr. Mann said there were a number of encouraging signs. A workable oil law was nearly finished. The Texas Gulf Sulphur Company was among the U.S. firms interested in prospecting for minerals. The United Fruit Company may still invest considerable sums to salvage its Bananera properties without waiting for settlement of the anti-trust suit. Mr. Mann felt the Company should amend its North Coast operating contract within the next few months, before conditions develop which may make it more difficult for the Company. The Empresa Electrica is working up to a $22,000,000 investment, probably financed by Eximbank, for power expansion. However, the Company is acting badly and has not won the confidence and respect of the Guatemalans. The Minister of Public Works[4] is decidedly hostile to the Company, as are many of the ministry officials.

Level of Aid

Under Arbenz, the Government ran up an internal debt of almost $50,000,000, spending was free and easy, and trade was fairly brisk. In contrast, under Castillo Armas, who not only has no $50,000,000 to spend, but must begin to pay it back, commercial activity has gone into a slump and private capital has not regained confidence. Arbenz benefited from the highest coffee prices, while under Castillo Armas a serious drop in the market has resulted in unexpected budget retrenchment. In his last year, Arbenz had $90,000,000 available to spend. Even with U.S. aid, Castillo Armas had only $84,000,000, and prospects for the coming fiscal year are even more dim. To keep up the level of activity, additional funds must be pumped into the internal economy. International reserves have gone down $3.4 million, comparing the peak month of March. The IMF has recently concluded that this is about the maximum safe level, which means they should not be drawn upon.[5] It is impracticable to expect the present Government to float further internal bond issues, in view of the existing heavy debt and lack of confidence.

The IBRD already has a loan program in sight which exceeds $20,000,000. This includes money to cover the dollar costs of the Atlantic and Pacific Coast Highways, INFOP, Agriculture Operations, and miscellaneous loans. If we add $22,000,000 for expansion of electric power facilities and miscellaneous small loans, it is safe to say that a level of $50,000,000 is in sight, which, added to the internal debt gives a total of $100,000,000. This would be a drain of some $10,000,000 a year on the budget for debt service, or about 14 percent of the budget, a high proportion by any standard. Borrowing for the Inter-American Highway would therefore automatically reduce the scope of the planned economic development program.

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[4] Juan Luis Lizarralde, Minister of Communications and Public Works.

[5] The words "borrowed on" were deleted from the source text at this point and replaced with "drawn upon."

Equally important, Mr. Mann stated, is the psychological effect, not only in terms of creating confidence and economic stability by refraining from borrowing too much, too fast, but as a measure of our willingness to support the regime until it can stand on its own feet. Another important factor is the traditional hard money policy of Guatemala which is based on a practice of no foreign debt.

The Embassy's recommendation is for grant aid for the following proposed (tentative) projects:

Atlantic Highway	$5,000,000
Pacific Slope Highway	3,000,000
Highway Maintenance	4,000,000
Rural Resettlement	1,500,000
Roosevelt Hospital	500,000
Total:	$14,000,000

Mr. Mann said this program would permit Guatemala to pay its own share of the Inter-American Highway next fiscal year, as it had $4,800,000 budgeted for highway maintenance, part of which could be diverted if our grant program were carried out.

Mr. Holland pointed out that the only question was whether the $4,000,000 of the total grant-loan program was to be in the form of an Eximbank loan or an FOA grant. He requested justification for making it a grant.

Mr. Mann said that considering the present debt level and the low state of public confidence in Castillo, to require that the Government borrow the $4,000,000 for the Inter-American Highway rather than receive budgetary relief through a grant, would cause an adverse psychological and political reaction in the country of sufficient seriousness to make it inadvisable that we take the risk.

Mr. Mann said that under present conditions we must avoid measures which would weaken Castillo Armas. He thought that requiring Guatemala to borrow the $4 million now would, in fact, weaken him. Furthermore, Mr. Mann said, an adequate grant ($14 million) at this time would strengthen our bargaining position in Guatemala, which could prove to be an important consideration. Mr. Mann said this was the Embassy's conclusion after a detailed examination of all the factors in a situation which obviously did not lend itself to mathematically precise determinations.

Mr. Holland said that his own guess from this distance would be that the effect of borrowing the $4,000,000 for the Inter-American Highway would be favorable rather than the contrary. However, he intended to be guided by the views of the capable men we had on the spot and accepted without reservation the recommendation for expanding grant aid from $5,000,000 to $14,000,000.

Mr. Holland telephoned Mr. Nolting, who recommended that in the Congressional hearings next week, Mr. Holland take the opportunity to support an increase in grant aid for Guatemala from $5,000,000 to $14,000,000. It was hoped that if a committee member raised the question of adequacy of aid to Guatemala, Mr. Holland's testimony might result in the bill's emerging from the Congress with the latter figure incorporated in it, which would make it unnecessary to compete for the share of the possible contingency fund. Mr. Holland directed that a memorandum to the Secretary be prepared to establish the Department's position along the foregoing lines.[6]

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[6] In a memorandum of May 3, Holland recommended to Dulles that he authorize the Department of State to support an increase from $5 million to $14 million in fiscal year 1956 grant aid to Guatemala in Congressional consideration of Mutual Security legislation. (Department of State, Central Files, 714.5–MSP/5–355)

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28. Telegram From the Ambassador in Guatemala (Armour) to the Department of State[1]

Guatemala City, May 8, 1955—9 p.m.

599. Officials concerned have reviewed problems internal security (Department circular telegram 649[2]) and agree US security policies this hemisphere have thus far paid more attention building up defenses against threat of overt hostilities with non-American state than to continuing menace internal Communist subversion which deserves more attention. Our basic concept is that danger of successful Communist insurrection here is presently more remote than in areas contingent [*contiguous*] to Soviet sphere and while there is substantial room for improvement in Guatemalan security services we should not deceive ourselves such improvement would provide

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[1] Source: Department of State, Central Files, 714.5/5–855. Top Secret; Priority. This telegram was transmitted in two parts.

[2] Dated May 6, not printed. (*Ibid.*, 700.5/5–655)

substitute for basic measures to reduce political and economic instabilities and to create climate in which Communist conspiracy could not thrive.

In this context following are our answers Department circular telegram 559.[3]

I. Threat of Communist subversion: Overt Communist apparatus collapsed last summer with overthrow of Arbenz regime and has not yet been reconstituted underground to point where in itself presents current threat to stability. It is outlawed, its visible activities are largely confined to small scale clandestine propaganda and it has apparently not yet achieved any important penetration of government or other key parts of social structure. Its main chance for comeback lies in continuing political instabilities and unsatisfactory economic conditions. Castillo Armas government continues be threatened with dissident or ambitious groups to left and right which in cooperation with military elements and encouraged by economic dissatisfactions potentially have capability overthrowing government and creating political confusion in which Communist conspiracy could blossom again. That this has not occurred is at least partially due to fact potential opposition is itself deeply divided. Basic facts are that Castillo regime depends on will of armed forces and that at present they are divided by conflicting personal ambitions and by unhealed breach between liberation and regular officers; former favoring tough authoritarian rule with widespread purges. Castillo's current policy is to follow middle path between two, playing one off against other and relying on his personal popularity and backing of US to discourage united move against his government. If this policy should break down possibility would exist of increased scope for Communist subversion.

II. Adequacy of indigenous counter measures.

a. Castillo government recognized threat and has will to act. However on most secondary levels of government officials have insufficient detailed knowledge of Communist organization tactics and personality to strike accurately at Communist conspiracy.

b. Capabilities of indigenous forces.

(1)(a) Principal Guatemalan agencies concerned with suppression Communist subversion are Committee for National Defense against Communism (CDNCC), National Police, security police, military intelligence and special Presidential investigating police. All devoid of trained personnel and ill-defined authority agencies leads to confusion. In early days after fall Arbenz, agencies failed to apprehend single top Communist most of whom appear to have escaped country. Since then less than half dozen second echelon Communists rooted out within country. Only known arrest of Communists this year is of two small groups putting out clandestine literature.

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[3] Dated March 23, not printed. (*Ibid.*, 700.5/3–2355)

(b) Since fall of Arbenz about 5 thousand persons arrested, some several times, on suspicion Communist activities, most in first weeks after revolution. Virtually all released after administrative hearings. This year practice has been arrest "suspects", hold them for few days or weeks, and then release them for lack of proof, leading to building up of resentment against regime and giving real Communists opportunity benefit from growing presumption authorities don't know what they are doing.

(c) No court cases involving specifically Communist activities have arisen except one of persons accused of putting out clandestine party paper which has not been resolved. Under anti-Communist law CDNCC has power detain persons up to six months without trial. Its indiscriminate use of this power has raised possibility forthcoming constitution will contain article forbidding imprisonments by special administrative action.

(d) Guatemala has sufficient police and military power to apply limited force in any likely situation.

(2) Military action: Need to apply full scale military action against insurrection does not appear likely at this time.

c. Support of countermeasures by local population: Support Guatemalans will give in future depends on improvement of security system. Majority of politically conscious Guatemalans are anti-Communist and would like to see Communist subversives caught. However there is increasing resentment against CDNCC's methods arrest and increasing tendency to forget reason for anti-Communist measures and to focus on injustices of system.

III. Analysis of programs: US programs here have consisted of advice and supplying of data on local Communist movement on case to case basis assistance towards improving CDNCC, sending of police officials for training, making available radio equipment and technicians for location clandestine stations, and assignment of US military intelligence officer to work with Guatemala military intelligence. These programs have not yet matured because (a) insufficient time for effects of training and advice to be felt and (b) highly delicate political and personality problems in Guatemalan security agencies which have to date precluded rapid action towards necessary reforms and reorganization.

IV. Recommendations.

(1) That we continue to place primarily emphasis on adequate economic, technical, military assistance and diplomatic programs designed to promote sufficient political and economic stability to minimize subversive danger.

(2) That we continue programs outlined in paragraph 3 above with special emphasis on seeking to persuade government to improve organization and staffing of security organization.

(3) That we . . . convey to local authorities information concerning activities of Guatemalan Communists in exile and others potentially linked with Communist underground here. They cannot do this for themselves.

(4) We have not hitherto recommended material or financial aid to raise standards of police security forces because this would involve greater expenditures which Circular 559 confirms Department does not want. Apart from obvious political risks we could not subsidize police without stimulating demands other organizations. However we wish to underscore effective machinery to control Communist subversion unlikely unless it can attract competent personnel.

(5) We agree fully with logic that local government should be encouraged look upon their regular forces primarily as instrument for dealing with subversion. We doubt, however, that it is realistic here at this time because of psychological factors. Guatemalan officers corps is deeply inculcated with ancient traditional and ethical concepts of profession of arms and any effort to regard them or make them regard themselves as policemen would be an outrage to their sense of honor. Our military missions have been working quietly to reduce pressure for combat material in favor of support but it has been impossible to go beyond this without causing resentment. There is little we could do which would open breach between Castillo and military so quickly than to pressure him into making military give up their traditional role as soldiers.

Armour

29. Memorandum of a Conversation Between the Adviser for Political and Security Affairs to the United States Mission at the United Nations (Armour) and the Guatemalan Representative at the United Nations (Arenales Catalan), New York, May 11, 1955[1]

SUBJECT

Guatemala

A few days ago Arenales said he planned to draw up a memorandum for submission to Ambassador Lodge[2] which he hoped would be transmitted to appropriate US officials. This memorandum would outline a sort of "Declaration of Truth" to be negotiated and subsequently publicized by the Governments of the United States, Guatemala, Honduras and Nicaragua. This Declaration would serve to convince world opinion that the Castillo Armas revolution was nationally inspired and not the product of outside intervention. In this connection he referred to a remark of Nehru's[3] at the Bandung Conference.[4] When someone had referred to Soviet satellites, Nehru had replied the US had them too, e.g. Guatemala.

Arenales appeared upset by what he referred to as the tragic mishandling of the revolution by the US. He indicated that the publicity the US had received during that period had placed Guatemala in an unenviable position vis-à-vis her relations with the US and other Latin American countries. He believed a "Declaration of Truth" is necessary in order to clear the air. He said he had discussed this with President Armas before leaving for the US but that the President did not quite seem to grasp the idea.

Subsequently Arenales paid a courtesy call on Ambassador Lodge. He told him he was planning to submit this memorandum in the near future. He also said that should the US government wish to deal directly with President Armas and not through the Embassy in Washington or through his Foreign Office, they could deal with him as he has a direct line with the President.

Comment: Arenales in all his conversations with USUN seems to be trying to give the impression he is here as Permanent Guatemalan

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[1] Source: Department of State, Guatemala Files: Lot 59 D 6, Memoranda of Conversation. Confidential. The Guatemalan Ambassador was Emilio Arenales Catalan. Norman Armour left his post in Guatemala on May 9. He was succeeded by Edward J. Sparks, who was appointed on June 14 and presented his credentials on July 29.

[2] Henry Cabot Lodge, Jr., U.S. Representative at the United Nations.

[3] Jawaharlal Nehru, Prime Minister and Foreign Minister of India.

[4] The Conference of Asian-African Countries, held at Bandung, Indonesia, April 18–24, 1955.

Representative to the UN, Ambassador to the US and possibly acting Foreign Minister temporarily abroad.[5]

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[5] According to a memorandum of a telephone conversation, May 16, Armour informed Fisher that Arenales stated that he had received cables from the Guatemalan Foreign Office "ordering him to drop any idea of a 'Declaration of Truth' on the Guatemalan revolution of 1954, and demanding an explanation of his reported approach to Ambassador Lodge on the subject." The memorandum stated that Arenales had presented the idea as his personal view and not as an official proposal from his government. The memorandum stated further that Arenales had spoken informally with Armour prior to the conversation with Lodge. (Department of State, Guatemala Files: Lot 59 D 6, Memoranda of Conversation)

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30. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, May 20, 1955.

SUBJECT

Outline Plan of Operations for Guatemala[2]

Discussion:

The Outline Plan of Operations for Guatemala under NSC 5432/1[3] is to be discussed at the OCB meeting on May 25. The salient feature of this Outline Plan is the conclusion that the collapse of the present Guatemalan Government would be a disastrous political setback for the United States and that we should therefore provide the emergency assistance necessary to keep the Castillo Armas Government in power. In order to rebuild Guatemala's economic health and strengthen the prestige of the Government, it is proposed to: (a) complete the Inter-American Highway in three years (estimated cost to the U.S., $38,500,000); (b) give Guatemala economic development assistance to pay part of the cost of completing the Atlantic and Pacific Highways and other projects ($14,000,000 in FY '56) and (c) supply funds to help equip the Roosevelt Hospital, a building with U.S. technical assistance since

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Guatemala, 1954–1955. Top Secret. Drafted by Krieg.

[2] Not printed.

[3] For text, see *Foreign Relations,* 1952–1954, vol. IV, p. 81.

1943 ($500,000). In addition it is hoped through the technical assistance program to help the Guatemalan Government modernize its administrative and financial systems as well as to improve agriculture, public health and education. The paper also urges that solutions be sought for the problems of the three major U.S. companies operating in Guatemala which will harmonize the interests of the U.S. investors with the nationalistic aspirations of the Guatemalans, and it recommends that we continue to assist in drawing up a new basic petroleum law.

In the field of public opinion our efforts should be directed toward overcoming the effects of Communist propaganda which for the past ten years systematically distorted U.S. motives, and towards insuring appreciation, both within and outside Guatemala, of the efforts of the Castillo regime to steer a moderate course. The paper also recognizes the importance of the military class and recommends greater efforts to insure their orientation towards U.S. concepts and objectives. It states that Guatemala should be drawn into the Hemisphere defense system but that primary emphasis should be placed on the maintenance of internal security.

I concur in the suggested courses of action which are in line with the policies we are currently implementing in Guatemala, and I make the

Recommendation:

That you move its adoption by the OCB.[4]

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[4] At its meeting on June 1, the Operations Coordinating Board approved the Outline Plan of Operations for Guatemala under NSC 5432/1. (Department of State, OCB Files: Lot 61 D 385: Latin America) In a memorandum dated June 2, 1955, Deputy Under Secretary Murphy informed Holland of the OCB action, stating that Under Secretary Hoover expected the Bureau of Inter-American Affairs to implement the recommendations as they applied to the Department of State. (*Ibid.*, Central Files, 714.00/6–255) In a letter dated August 2, Hoover forwarded to Ambassador Sparks in Guatemala City a copy of the Outline Plan of Operations. (*Ibid.*, OCB Files: Lot 61 D 385, Latin America)

31. Letter to the Chargé in Guatemala (Mann) from the Officer in Charge of Central American and Panama Affairs (Leddy)[1]

Washington, May 27, 1955.

DEAR TOM: We have devoted considerable conference hours to the momentous problem of the invitation to President Castillo.[2] There was notable reserve on the matter within the Bureau. Having in mind your thoughtful letter of April 11,[3] and the more recent sharpening of the question presented by Ambassador Cruz' official request for the visit, with the inevitable complication which a declination would involve, it was finally agreed that nothing less than query to the Embassy should be the first step. Since your reply[4] was not read as advising against the visit, we went back to more conferences and then learned that, contrary to preconceptions, a receptive attitude might well be found in higher quarters in the Department, and probably at the White House. This should surprise no one, since some powerful Senators strongly expressed themselves privately as in favor of this gesture and, in addition, there is a political predisposition at this end to emphasize the singular nature of Castillo's overthrow of the pro-Communist government. Thereupon, the line of decision was quickly taken to present the request and ARA's recommendation formally, through the customary channels; and this is being done today.

It is pretty generally agreed that the timing of the visit would best be in the early Autumn. Compliance with a date in June is an impossible request for the Department to make and might well scotch the whole venture; on the other hand, a visit next year is considered as likely to be so diluted in the Guatemalan public mind as to lose some of the principal advantages which are hoped for. It would, of course, be permitted to make public announcement of the invitation as soon as it is extended, with the exact date to be settled later in the year.

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[1] Source: Department of State, Central Files, 714.11/5–2755. Confidential; Official–Informal.

[2] In telegram 597 to Guatemala, May 18, the Department reported that Ambassador Cruz had requested an invitation for Castillo to visit the United States in June. The Department requested the Embassy's recommendation on the visit. (*Ibid.*, 714.11/5–1855)

[3] Not printed.

[4] In telegram 616 from Guatemala City, May 20, Chargé Mann replied that the significance of the invitation as a good will gesture "would be diminished by fact that our support of Castillo regime has already been dramatized to point where all politically conscious Guatemalans are aware of our attitude." Mann recommended that the Department inform Ambassador Cruz "that we do not consider this an opportune time for a visit from either the Guatemalan or the international point of view especially since we expect to make known our continued support of the government in other more effective ways." (Department of State, Central Files, 714.11/5–2055)

This timing is somewhat different from your recommendation in the second paragraph of your April 11th letter. However, that recommendation was related to the assumed reluctance of the White House to make an exception to this year's established list of guests. Should such reluctance not be found (and such evidence as one can get indicates a favorable attitude) the timing we have recommended would seem to coincide with the points you have outlined.

Some of the outside backers of the proposal would prefer Castillo to be here while Congress is in session, in order that he might be invited to make a brief address before a joint session. There are, of course, political reasons for that kind of invitation. However, suitable publicity, from the viewpoint of Guatemala, can be achieved by one or more addresses before other groups, such as the National Press Club here in Washington.

I am hopeful that these developments do not run counter to any of your analysis and conclusions. Throughout the conferring, I have sought to be guided by what I consider to be your own views.

With best regards,

Yours ever,

Raymond G. Leddy[5]

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[5] Printed from a copy which bears this typed signature.

32. Memorandum of a Conversation, Department of State, Washington, May 31, 1955[1]

SUBJECT

Guatemala: Economic Problems—Visit of Minister of Economy Jorge Arenales

PARTICIPANTS

Jorge Arenales, Guatemalan Minister of Economy and Labor
Undersecretary Hoover
Assistant Secretary Holland
Raymond G. Leddy, Officer in Charge, Central American and Panama Affairs
Leonard Weiss, Chief, Trade Agreements and Treaties Division

Minister Arenales called at his own request and brought up the following matters:

1) *Guatemalan-United States Bilateral Trade Agreement:* Guatemala seeks revision of the Agreement in order to save four or five domestic industries from extinction; the rates in the Agreement, fixed sixteen years ago, are out of line with present conditions. Import trade is swinging to Mexico, which Minister Arenales does not like because he wishes to keep Guatemala's trade with the United States, but any specific discrimination against Mexico would be impossible, and dangerous politically in view of delicate relations with that Government and the large number of Arbenz exiles living in Mexico. The Guatemalan Government does not wish to continue violating the United States Agreement, and prefers bilateral revision, but Guatemala cannot enter GATT now, as the United States would like, because it stands to lose too much; and if bilateral revision is not possible, Guatemala would prefer to terminate the Agreement by mutual consent, avoiding the political reaction against the Castillo Government, there and here, which would likely follow unilateral denunciation. Revision of tariff schedules and customs procedures is already under study by American experts working for the Guatemalan Government, and this information would be valueless unless the Agreement is revised or if necessary terminated. Announcement of termination could state this was done in order to arrive at new arrangements under study, such as the possibility of entering GATT in the future. If the industries now affected by imports under the Agreement should close, the Government's problems with unemployment would greatly increase; the issue is therefore a serious one for Guatemala.[2]

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[1] Source: Department of State, Central Files, 814.00/5–3155. Confidential. Drafted by Leddy. Hoover and Holland initialed their approval of this memorandum.

[2] By exchange of notes signed at Guatemala City on August 2 and September 28, the United States and Guatemala agreed to terminate by mutual consent, on October 15, the U.S.-Guatemalan reciprocal trade agreement of April 24, 1936. For the text of these notes, see 6 UST (pt. 3) 4071. For additional information on the termination of the trade agreement, see Department of State press release 578, September 30,

2) *Political Conditions:* The Castillo Government faces continued Communist opposition, now underground working to stir up the University students and the religious issue as means of creating friction. This activity is being closely watched but can become dangerous. The Government needs the continued support of the United States.

3) *United States Economic Assistance:* While United States aid has been notable and is appreciated, it should be done on the basis visible to the people, so that they will understand what help the United States is giving. The amount of the aid, whether it is $10 million or $500 is not as important as showing the poor people that the United States is helping Guatemala, if the Indian population is to comprehend the difference between the Soviet (which gave not a ruble) and the United States (which has contributed millions). Not all Guatemala's needs have been met, and this may be due to mishandling by Ambassador Cruz Salazar; but this aspect is a political problem, as Cruz' assignment in Washington and Colonel Dubois[3] in New York is for a political reason. An example of aid visible to the people would be six ambulances for the Social Security hospitals, marked as a gift from the United States to the Guatemalan people and placed in towns such as Esquintla where there was Communist strength. The opening of the stretch of the Inter-American Highway (even though built entirely by Guatemala) with a ceremony attended by Senator Spessard Holland and a group of Senators and Congressmen, is the kind of public demonstration of cooperation needed to show how much the United States is doing for Guatemala.

The Undersecretary assured Minister Arenales that there is no question that we would work with him to solve Guatemala's problem on the Trade Agreement, and the other problems mentioned would be given thorough consideration; it was fortunate that the Minister could discuss these matters directly with Assistant Secretary Holland during this visit. Mr. Hoover recalled that the United States Government did not always receive a clear statement of Guatemala's needs and purposes in requesting assistance and the Minister could be assured that once such a statement is handed to us it would be quickly and properly acted upon. Funds already made available had not been entirely used in the current fiscal year. Minister Arenales said he would see that clear and exact presentation of Guatemala's needs is made.

Mr. Holland pointed out that we had given the Guatemalan Government absolute freedom to select the project on which the $3 million grant in 1954 was to be used, and asked whether there was any specific project which President Castillo now had in mind, since we are prepared to reach agreement on his requests; only last week

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Department of State *Bulletin,* October 10, 1955, pp. 577–578, and *ibid.,* October 31, 1955, pp. 695–696.

[3] Juan Mauricio Dubois, Guatemalan Consul General in New York City.

we made a transfer of corn, of a value of $750,000, to Guatemala. Minister Arenales said this corn would be of great help to the Government, and would be used to feed the people in El Peten, and that he did not wish to discuss with Mr. Hoover any specific proposal but only to emphasize Guatemala's pressing needs and political problems, such as those on the Trade Agreement and United States aid.

As an appointment in Mr. Holland's office had been arranged for Mr. Arenales at a later time the same afternoon, Mr. Hoover again urged the visitor to take up these matters with Mr. Holland in greater detail, assuring him of the Department's intention that a satisfactory solution be reached.

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33. Editorial Note

According to minutes of the Secretary's Staff meeting of June 16, Assistant Secretary Holland discussed the situation in Guatemala as follows:

> "Mr. Holland was quite encouraged over the present situation with respect to US aid to Guatemala. The Department had asked for an increase of $9 million in current aid over the previously requested $5 million for Guatemala and the Senate has just agreed to this increase. With respect to the Inter-American highway program, Mr. Holland said that the House Appropriations Committee had recently passed a bill authorizing an expenditure of $25 million over a three year period, which is in addition to the $8 million expenditure they had previously approved. He was of the opinion that the three year highway bill would go through and indicated that this would be of particular assistance to Guatemala because it is expected that one-third of the money for the highway will be spent in that country. Mr. Holland also reported that President Armas' principal political opponent was planning to take a long vacation and expected to leave the country in the near future." (Department of State, Secretary's Staff Meetings: Lot 63 D 75)

34. Memorandum From the Acting Secretary of State to the President[1]

Washington, June 21, 1955.

SUBJECT

Invitation to President Carlos Castillo Armas of Guatemala for a State Visit

Nearly a year has passed since the forces led by Castillo Armas overthrew the Communist-dominated government of Jacobo Arbenz in Guatemala. The administration Castillo Armas heads is now engaged in the task of restoring orderly government procedures and rebuilding the country's shattered economy.

Appreciable progress has been made. Last fall the voters gave Castillo a larger majority than Arbenz received in 1950. A Constituent Assembly is now at work drawing up a new constitution. His government has adopted an enlightened view on such touchy social problems as labor organization and rural resettlement.

On the other hand the level of economic activity is lower than it was prior to the liberation. U.S. economic development grants and technical assistance are helping, but Castillo Armas needs an additional political boost which will clearly indicate that he enjoys our support and that we regard his government as stable.

Moreover, it is important to us that we support Castillo Armas, since he is the only political leader on the Guatemalan scene who is neither of the extreme right nor soft toward the left and with whom we can satisfactorily collaborate. His fall would be a serious blow to the prestige of the United States. An appropriate gesture on our part at this time would increase the confidence of the Guatemalans in his administration and thus contribute to an improvement in economic activity.

I, therefore, recommend that you invite President Castillo to visit you some time this year, the exact date to be agreed later. I believe a public announcement of this invitation should be made as soon as possible.[2]

Herbert Hoover, Jr.[3]

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[1] Source: Department of State, Central Files, 714.11/6–2155. Confidential.

[2] In telegram 666 to Guatemala City, June 30, the Department informed the Embassy that the President approved the invitation to Castillo for a State visit in the fall. (*Ibid.*, 714.11/6–3055) In telegram 29 from Guatemala City, July 27, the Embassy informed the Department that President Castillo accepted the invitation and the scheduled dates, October 31–November 2, for his Washington visit. (*Ibid.*, 714.11/7–2755) On October 1, the White House announced that President Castillo would make a State visit to the United States.

[3] Printed from a copy which bears this stamped signature.

35. National Intelligence Estimate[1]

NIE 82–55 *Washington, 26 July 1955.*

PROBABLE DEVELOPMENTS IN GUATEMALA[2]

The Problem

To estimate: the strengths and weaknesses of Guatemala; probable Guatemalan policies and courses of action; and prospects for Guatemalan stability, with particular reference to the stability of the Castillo regime.

Conclusions

1. Many Guatemalans are passionately attached to the democratic-nationalist ideals of the 1944 revolution which overthrew the Ubico[3] dictatorship. However, few understand the processes and responsibilities of democracy. A keen sense of nationalism, largely directed at foreign investors, colors Guatemalan politics. Responsible democratic government is therefore difficult to achieve. *(Paras. 12–13)*

2. President Carlos Castillo Armas still rules by decree pending the promulgation of a new constitution and the election of a Congress. He has a substantial residue of personal popularity throughout the country despite his inexperience and frequent spells of indecision. He has attempted to follow moderate policies and has placed national interests first. *(Paras. 19, 23–25)*

3. The most immediate of Castillo's problems stem from depressed coffee prices and from the effect of drought conditions on corn, the staple diet of Guatemala. Castillo's difficulties have been further complicated by poor management, and by the impatience of

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[1] Source: Department of State, INR–NIE Files. Secret. Files of National Intelligence Estimates, Special Estimates, and Special National Intelligence Estimates, retained by the Directorate for Regional Research, Bureau of Intelligence and Research.

National Intelligence Estimates (NIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of NIEs.

According to a note on the cover sheet, the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, the Joint Staff, and the Central Intelligence Agency participated in the preparation of this estimate. The Intelligence Advisory Committee concurred in this estimate on July 26.

[2] This estimate supersedes NIE–84, "Probable Developments in Guatemala," published 19 May 1953. [Footnote in the source text.]

[3] Jorge Ubico, President of Guatemala, 1931–1944.

the articulate sector of the electorate for a return to constitutional government. The Church-State issue has been revived during the drafting of a constitution, and is likely to prove a source of political dissension in the coming months. *(Paras. 21–22)*

4. The remainder of 1955 and the first few months of 1956 will be especially difficult for Castillo. The government's ability to survive will probably be determined by the effectiveness of Castillo's leadership, by the amount of US assistance and support, and by the international coffee market situation. Much will also depend upon Castillo's success in creating a political organization which will give his government adequate support. Favorable developments in these areas would tend to assure the loyalty of the armed forces. On balance, we believe that if economic conditions do not further deteriorate, Castillo will probably be able to remain in power during this period. *(Paras. 41–43)*

5. The armed forces continue to be essential to the survival of the regime. Many of the regular elements of the army probably remain somewhat dissatisfied, but there is little likelihood of their initiating an organized rising. In the unlikely event that any of the more popular exiled army leaders were to launch a rebellion, the bulk of the army would probably remain loyal to Castillo and would be able to cope with the situation unless Castillo's political position had seriously deteriorated and the rebellion were conducted on a substantial scale. If rightist extremists among the Liberation elements in the army were to attempt a coup, it would probably be put down by the integrated regular and Liberation forces. Nevertheless, we believe that there will continue to be sporadic unsuccessful attempts against the government. *(Paras. 17, 29–30)*

6. Communist and Arbencista subversive activity—both domestic and foreign—has not been a serious threat to the Castillo government. We believe that the Communist and Arbencista threat at least in the short term will remain of relatively little importance. The Communists and other discontented elements will seek to harass the Castillo government, and may be able to place their men in a few minor government and labor union posts, and in educational institutions. However, under either Castillo or any likely successor government, we believe that the Communists will not succeed in securing positions prerequisite to a climb to power. *(Paras. 31, 34)*

7. We believe that if Castillo survives his immediate economic and political difficulties, with continued US support he will have a better than even chance of governing for the next few years. He will probably continue to adhere to a moderate course, and may be able to establish the basis for responsible constitutional government. *(Paras. 63–64)*

8. If the Castillo government should be overthrown, Guatemala would probably experience a protracted period of political instability. Rightest elements are more likely to be able to achieve this overthrow than any other group. *(Para. 65)*

Discussion

I. Introduction

9. *The land and the people.* Guatemala is a predominantly agricultural country about equal in area to the state of Tennessee, with a population currently estimated at roughly 3,200,000. Most of the population is concentrated in the temperate highlands. The little-developed tropical land of the Pacific coast is sparsely peopled, and the northern half of the country—the densely forested Peten—is virtually uninhabited. About 70 percent of the Guatemalans are illiterate, the bulk of them Indians who constitute over half the population and who have relatively little contact with the money economy. Almost 70 percent of the people reside in rural areas and over 75 percent of the labor force are agricultural workers.

10. The country displays most of the standard characteristics of underdevelopment: a low level of per capita production; inadequate transportation, power generation, and provision for health and education; a shortage of skilled labor and of transferable savings; and an inefficient and cumbersome public administration. Moreover, Guatemala's financial status depends to a great degree on revenue derived from the export of a single commodity—coffee. Efforts to diversify the economy have been hampered by the shortage of investment funds for the requisite expansion of transportation and power facilities. In addition, the domestic market is small, because of low per capita production and high concentration of income. According to the country's 1950 census of agriculture, three-tenths of one percent of the landholders held over 50 percent of the total agricultural area. These are primarily the great coffee plantation owners (finqueros), who frequently invest their profits abroad rather than in the development of the local economy. During the Arevalo and Arbenz regimes the gap between the very rich and the very poor was not narrowed.

11. There are probably not over 200,000 Guatemalans who are more than marginally politically conscious. Of this group, the large landholders have almost never taken a role in the administration of the country other than to exercise powerful pressures toward conservatism. Only in recent years has the growing but still very small urban middle class begun to acquire a voice in the determination of affairs. As a result, the professional class retains a disproportionate influence in the operation of the government.

12. Many Guatemalans are passionately attached to the democratic-nationalist ideals of the 1944 revolution which overthrew the Ubico dictatorship. However, few understand the processes and responsibilities of democracy. Guatemalan politicians are disposed to indulge in intrigue against the government in power rather than to rely upon normal democratic processes to achieve their objectives. Hence there is an atmosphere of political unreality, characterized by individual manipulation and suspicion. At present many Guatemalans appear to be primarily concerned with preventing dictatorship of the right or of the left. A keen sense of nationalism, at times verging upon the irrational, colors Guatemalan politics. There is a strong tendency to attribute Guatemala's backwardness to foreign investors, especially those from the US. Even the most pro-US elements in the area are not immune to this type of extreme nationalism.

13. Responsible democratic government is therefore difficult to achieve. The country's most capable propertied citizens traditionally are unwilling to put themselves in jeopardy by participating in an administration which might fall overnight. Many of the Guatemalans formerly associated with the Arbenz regime and hence experienced in government are no longer available. Thus, the present government must rely in large part on youths with little background or aptitude for administration, or on men who served under Ubico. Furthermore, the absence of agreed political party programs and even of agreement on objectives greatly hampers efficient government.

14. Carlos Castillo Armas must reckon with the heritage of the revolution of 1944 and with the social and economic programs initiated by the Arevalo and Arbenz regimes. Although these regimes failed to establish a tradition of sound government or to improve, notably, the material well-being of large segments of the population, they nevertheless effectively popularized many of the tenets of the 1944 revolution. Castillo recognizes the political reality of the revolution and has accepted, in principle, most of the major reforms advocated by his predecessors. He has committed himself to the restoration of democratic forms and practices, to land reform, to the development of a modern economy, and to the protection of a free labor movement and other social gains. He is also guided by nationalism, among the more dramatic symbols of which are the Atlantic Highway and a new Caribbean port, both of which were initiated to break the monopoly of foreign enterprise.

15. During the Arbenz regime, the social and economic needs of labor and the peasantry were articulated and exploited by the small Communist leadership. Having infiltrated key administrative positions the Communists were able to promote measures which appeared to meet some of the aspirations of these groups. The

Communists made considerable progress in the organization of urban and rural unions and were a prime influence in inducing the government to expropriate large tracts of land for distribution among the landless. Agrarian reform affected at least 35,000 peasant families.

16. *Events of the past year.* The Arbenz regime collapsed in June 1954. After ten days of indecisive fighting between government forces and Castillo's small irregular "Army of Liberation," top army leaders turned against the regime. Although army leaders generally supported Arbenz because of the many benefits received from him, they became increasingly concerned at his tolerance of Communists in the government. As a consequence, the army's loyalty to Arbenz was weakened. Lacking the will to fight and realizing that Castillo would succeed, top army leaders forced Arbenz to resign. They formed a Junta, headed by Colonel Elfego Monzon Aguirre, which effected a cease-fire with the Liberation forces.

17. The present government evolved from an agreement reached on 2 July at San Salvador between Castillo and Colonel Monzon. This agreement was brought about after mediation by El Salvador and the US. The principal provisions of the agreement were to unite the national army and the armed forces of the Liberation, and to reorganize the Junta. Soon afterward the Junta was reduced to three men—Castillo, Col. Monzon, and Major Enrique Oliva Quintana, an adherent of Castillo's. Castillo was named its president. One of the first steps of the Junta was an attempt to rid the country of Arbenz supporters. It immediately decreed the abolition of political parties. It established a "Committee of National Defense against Communism" (CDNCC) late in July. In the meantime most of the key Communist leaders had fled. The Junta also initiated an extensive investigation and punitive shake-up of the Communist-controlled labor movement, and issued an "agrarian statute" pending formulation of a new Agrarian Reform Law. In the reorganization of the armed forces, officers believed to be loyal to Castillo were given most of the high posts.

18. Shortly after these initial steps, dissension between the regular army and the Liberation forces broke out on 2–3 August following an attack by the military academy cadets on Liberation forces in the capital. A large proportion of one regiment, led by disgruntled regular officers, supported the cadets. This action, which nearly resulted in a coup, was ended by the Junta's show of strength, in which the loyalty of Monzon and of the air force were decisive factors. After several weeks of declining public confidence in the regime, Monzon and Oliva voluntarily resigned to give sole power to Castillo as Provisional President of the Republic.

19. Elections were held in October, resulting in popular confirmation of Castillo and the seating of 60 official "National Anti-

Communist Front" (FAN) candidates in the 66-seat Constituent Assembly. On 6 November Castillo was inaugurated for a term lasting until March 1960. He thus exchanged his de facto status for that of duly designated chief of state. Castillo continues to govern by decree on the basis of the "Political Statute" issued by the Junta in August 1954. The Assembly has virtually no legislative powers, and its primary function has been to draft a new constitution to replace that which was voided by the revolution.

20. Strife between regular and Liberation army officers again erupted in January 1955 when the government announced discovery of a "pseudo-Communist plot" involving dissident regular army officers. The government took strong and summary action to suppress the alleged plot. Six officers and men were summarily executed, several leading regular officers including Col. Monzon were banished, and additional Liberation officers were appointed to key military positions. In taking these actions, Castillo temporarily acceded to the persistent pressure of the Liberation elements for a through clean-up of potential dissidents. The January action was followed by two months of relative political tranquility, but subsequently the recurrence of rumors of plots and counterplots suggested growing dissatisfaction with the government.

21. The most immediate of Castillo's difficulties since last January have been economic. The problems of depressed business levels, unemployment, and financial stringency inherited from the Arbenz regime had not been surmounted when the price of coffee fell sharply in mid-February 1955. The finqueros slowed down delivery of their coffee crops, which resulted in a continued lag in the collection of government revenue and a withholding of some millions of dollars from the economy. An equally important source of discontent has been the delay in the advent of the rainy season and in particular its destructive effect on corn, the staple diet of Guatemala. Some farmers have lost as many as three plantings, and there are indications that the corn shortage may extend into 1956. The US is providing 30,000 tons of corn and a small amount has been imported from Mexico. However, increased imports of corn are likely to be required during the remainder of the year.

22. Castillo's difficulties have been further complicated by poor management, and by the impatience of the articulate sector of the electorate for a return to constitutional government. The committee drafting the constitution has submitted the document to the Constituent Assembly. The committee's task has been made particularly difficult by the interjection of the religious issue. The Catholic Church—disestablished since 1871—has sought to: (a) recover the right to own property; (b) re-establish monastic orders; (c) become active in the labor field; (d) open the public schools to religious

education; and (e) win constitutional recognition of its "pre-eminence." After extensive acrimonious debate and political maneuvers, all but the last of these major demands of the Archbishop have been incorporated into the draft constitution. However, the religious issue is far from closed, and it is likely to prove a source of political dissension in the coming months.

II. Political Developments

Position of the Castillo Regime

23. The ability of the present government to remain in power in the face of these difficulties probably results largely from: (a) US interest and support; (b) the substantial residue of personal popularity possessed by Castillo; and (c) the continued support of the armed forces. Most politically conscious Guatemalans believe that the US planned and underwrote the 1954 revolution, and therefore has a continuing responsibility for the success or failure of the present government. Castillo might have been deposed on any one of several occasions had his prospective opponents believed that the US would not give him prompt support. Thus, most criticism of the policies and performance of his government has been directed at his advisors and at the US rather than at Castillo himself.

24. One of Castillo's understanding assets in the eyes of his countrymen is his sincere patriotism. Combined with that quality are modesty, informality, and accessibility. Castillo's moderation in employing the sweeping powers entrusted to him has reassured Guatemalans that he would not become a dictator. However, Castillo is inexperienced in government and lacks the intellectual qualities to overcome this deficiency with ease. Castillo often listens uncritically to anyone offering facile solutions to administrative problems. In dealing with his colleagues and subordinates his conspiratorial background has often caused him to vacillate between intense suspicion and unreasoning trust. He also suffers from frequent spells of nervousness and indecision.

25. Castillo has attempted to follow a middle-of-the-road course and to place national interests ahead of the interests of specific groups. He has identified himself with the more moderate aspects of the revolution of 1944 and with the struggle against Communism, corruption, and political oppression. However, the moderate political elements which support him have not been organized, and the individuals who immediately surround him in advisory positions are, for the most part, conservatively oriented. The majority of his Liberation army supporters advocate stronger and more extreme rightist policies, and the elimination from office of those who served the previous regime. On the other hand, some of his Liberation

colleagues and many of the regular army officers advocate the more liberal principles of the revolution of 1944. Both groups, however, are divided internally by personal ambitions and conflicting views. The Church-State issue further complicates the problem of formulating policies which could secure majority support. Castillo's government contains fervent anti-clericals as well as advocates of the Church, many of them far more intransigent than the relatively moderate Archbishop.

26. Lacking organized political support, Castillo has been unable fully to implement his program. The coalition of "Anti-Communist" groups (FAN) formed for the elections disintegrated shortly thereafter under the stress of conflicting aims and motives. Moreover, there has been little administrative talent to draw upon. Personnel appointed to administrative positions have been either inexperienced in government administration, interested primarily in jockeying for position in the present scramble to form political parties, or merely out to line their own pockets. Policy accordingly has vacillated, and its execution has been slow and indecisive.

The Role of the Armed Forces

27. The army, which also commands the air force, continues to be essential to the survival of any Guatemalan regime. Addition of the Liberation elements has brought army strength to about 8,000 men. The air force consists of approximately 350 men and 44 aircraft of all types, of which the most important element is six F–51's obtained from the US. The National Police Force of 3,900 men is staffed by army officers. As long as the armed forces remain united and loyal, they are capable of maintaining internal security and of repelling attack from any of Guatemala's Central American neighbors.

28. The army traditionally is interested primarily in the defense and expansion of its prerogatives. Satisfaction of the army has usually been given top political priority by any Guatemalan regime. Castillo, however, has had the additional problem of restraining the rivalry between regular officers who served the previous regime and those of the Liberation. Resisting his Liberation supporters' demands for a complete purge, Castillo has moved cautiously but steadily toward putting his trusted adherents in key positions. Colonel J. Ernesto Niederheitmann, an important Liberation commander, is now army chief of staff, and the only remaining highly placed holdover from the Arbenz regime is Colonel Enrique Close de Leon, the defense minister. Castillo is under pressure to replace the latter, but he is probably deterred both by Close's considerable prestige and following in the army, and by a desire to offset overwhelming Liberation influence.

29. Many of the regular elements of the army probably remain somewhat dissatisfied with their position under Castillo. However, since their leaders have largely been replaced by prominent Liberation figures, there is little likelihood of disgruntled regulars initiating an organized rising against the present regime. In the unlikely event that any of the more popular exiled army leaders were to launch a rebellion, a small portion of the army would probably try to join and some would wait on the sidelines. However, the bulk of the army would probably remain loyal to Castillo and would be able to cope with the situation unless Castillo's political position had seriously deteriorated and the rebellion were conducted on a substantial scale. If rightist extremists among the Liberation elements in the army were to attempt a coup, it would probably be put down by the integrated regular and Liberation forces.

30. Castillo probably will continue to strengthen his position by placing his trusted supporters in key army positions and by making further efforts to satisfy the army's material demands. His position vis-à-vis the armed forces will be further strengthened by the recently signed Mutual Defense Assistance Pact with the US. Nevertheless, we believe that there will continue to be sporadic unsuccessful attempts against the government.

The Potential Opposition

31. *The Communist threat.* Communist and Arbencista subversive activity—both domestic and foreign—has not been a serious threat to the political stability of the Castillo government. There were almost certainly no more than 4,000, and perhaps substantially fewer, Communists in Guatemala at the height of Arbenz's power. The most prominent figures of the former regime are no longer in Guatemala, but probably about half the Communists, and a much larger number of Arbenz sympathizers are still in the country. Communist subversive activity since July 1954 has been largely confined to the circulation of sporadically produced mimeographed propaganda, and some broadcasts over clandestine radio stations may have been Communist-inspired. However, the organization, Frente de Recuperacion Nacional, may serve as cover for the remnants of the Communist Party, reconstituted as an underground movement.

32. Communists and Arbencistas in exile do not constitute an immediate threat to the Guatemalan government. The exiles are presently resident in several Latin American countries, with the largest concentrations in Mexico, Argentina, Brazil, El Salvador, and Ecuador. Potentially the most dangerous group, which includes the majority of the key figures in the former regime, is in Mexico. These exiles have received assistance from Mexican Communist and pro-Communist groups and probably have attempted to form a political

organization. However, this activity apparently is impeded by divisions between Communists and Arbencistas and by splits within each of these groups. The exiles in El Salvador are fewer in number, but are potentially important by reason of their proximity to Guatemala.

33. The government has given the principal responsibility for investigating Communists to an agency known as the Committee of National Defense against Communism (CDNCC). The CDNCC, which has the power to arrest, has often proven incompetent, overzealous, and arbitrary and has aroused public disapproval and even ridicule. There are strong pressures for its dissolution. In response to these and other pressures, Castillo probably will soon reorganize the government security system.

34. We believe that the Communist and Arbencista threat at least in the short term will remain of relatively little importance. Despite the administration's scrutiny, the Communists may be able to place their men in a few minor government and labor union posts, and in educational institutions. There are many restless and discontented Guatemalan groups which might become vulnerable targets in a deteriorating economic and political environment. These include unemployed workers, peasants threatened with eviction from their lands, disillusioned student and intellectual elements, and discharged government employees. The Communists and other discontented elements will seek to harass the Castillo government. However, under either Castillo or any likely successor government, we believe the Communists will not succeed in securing positions prerequisite to a climb to power.

35. *Labor and rural groups.* Guatemalan labor was the class most adversely affected by the overthrow of Arbenz. The organization of the labor movement was virtually destroyed after the revolution. After being favored for a decade, the workers are now often the object of official suspicion, and are waging an uphill battle to reconstitute their trade unions. Moreover, depressed business conditions since the revolution, as well as efforts by employers to negate the benefits granted to labor by the previous regime, have increased unemployment and intensified labor's feeling of insecurity and resentment. Although Castillo made some promises to labor, he has been unable to redeem them fully because of economic difficulties and conservative opposition. The result has been a decline in Castillo's popularity and an increase in restlessness among those groups.

36. In recent months the government has shown greater interest in safeguarding trade union liberties. By mid-1955 twenty-six trade unions, including the half dozen most important ones, had already been legally established and others were awaiting approval. More forceful attempts are being made to implement the Labor Code, and

the Labor Courts, which immediately after the revolution had dealt harshly with workers's claims, are now ruling more favorably to labor. On balance, labor leaders appear to feel, that despite antilabor sentiment in certain politically influential circles, Castillo offers the best present hope for the reconstitution of a free labor movement.

37. In the eyes of labor the test of Castillo's sincerity in labor matters will lie in his willingness to permit the establishment of a strong central labor organization free of political control. To date, two central organizations have been established in embryonic form. The Federacion Autonoma Sindical (FAS), which represents the bid of the Catholic Church for labor support, has so far failed to attract an important segment of labor because of anticlerical sentiment among workers and the political ties of its leader with the Administration. The Consejo Sindical de Guatemala (CSG) represents a small group of relatively well established trade unions which are moderate in outlook and have a promising leadership. If Castillo accedes to the CSG's request for legal recognition free of political control, he will probably win labor's support at least for the near future. We believe there is a better than even chance that Castillo will attempt to comply with the CSG's wishes.

38. Rural groups are having even more difficulty in obtaining favorable government action. The Arbenz regime resettled rural workers on government lands as well as on those it acquired through expropriation. It also fostered the organization of plantation workers. Although many of the benefits given the peasants were illusory, and peasant organizations were mainly used by the Communists for political purposes, the Arbenz regime's action responded to genuine rural demand and need for land reform. Castillo is under strong pressure from the landholders to restore expropriated properties and to continue to deny rural workers the right to organize. In most cases he has postponed the return of land to original owners. He is developing a plan which envisages the resettlement of 5,000 peasant families annually on public lands in the Pacific Coast region. With US technical and financial help, this project over the long run is likely to prove of substantial assistance in quieting rural discontent. In fact, the government probably will have more to fear over at least the short term from the conservative critics of agrarian reform than from the disorganized and virtually leaderless rural population. On the other hand, the possibility of sporadic violence among plantation workers cannot be excluded in the event of critically worsened economic conditions against which the government fails to take prompt remedial action.

39. *The threat from the Right.* The extreme rightists among Castillo's supporters, together with influential conservative civilian elements throughout the country, probably constitute the chief potential

source of opposition to the government. Most of these conservative factions strongly criticize Castillo for his "soft" policy toward both civilian and military office-holders of the previous regime, for his moderate policies toward labor and agrarian problems, and generally for his refusal to turn back the clock to 1943. However, Castillo so far has kept rightist discontent within bounds. There is no indication that the diverse rightist elements are preparing any concerted attack on the government. A rightest coup would be highly unlikely so long as Castillo retains US support and that of the Guatemalan armed forces, and can secure public confidence by making some progress toward solving Guatemala's economic problems.

40. The personalities around which conservative opposition might crystallize are few. Juan Cordova Cerna, former head of the National Council for Economic Planning and the foremost civilian participant in the Liberation, has intermittently clashed with Castillo. Staunchly conservative and highly ambitious, Cordova has persistently been cited as Castillo's greatest rival. However, Cordova's power appears to have been neutralized. Shortly after the revolution the return to Guatemala of General Miguel Ydigoras Fuentes, a former presidential aspirant, posed another problem. Castillo at least temporarily has resolved this problem by assigning Ydigoras to the post of Minister to Colombia. Finally, Chief of Staff Col. Niederheitmann, although currently a close associate of Castillo, is the type of conservative military "strong man" around whom disaffected rightist elements might naturally rally.

Short-Term Political Prospects (Through Early 1956)

41. The remaining months of this year and those of early 1956 will be especially difficult for Castillo Armas. The draft constitution has been submitted to the Constituent Assembly for approval by fall. If it is adopted, the Constituent Assembly is to schedule elections for a new Congress, probably for some time in the winter of 1955–1956. Meanwhile, in preparation for a resumption of normal political activities, the formation of political parties has begun. In addition, the government will have to cope with budgetary and other economic difficulties created by depressed coffee prices and by the inadequate rainfall. The ability of the present government to survive will probably be determined by the effectiveness with which Castillo deals with these problems, by the amount of US assistance, and by the international coffee market situation.

42. Much will also depend upon Castillo's success in creating a political organization which will give his government adequate support. Such an undertaking is rendered difficult by the widely conflicting views and interests of even his staunchest adherents. Nevertheless, the process is underway. The administration has

launched an "official" political party named the National Democratic Movement (MDN). The MDN's middle-of-the-road policy statement is signed by 144 individuals representing all shades of non-Communist political beliefs. The government's strongest supporting organization to date, the Committee of Anti-Communist University Students (CEUA), has dissolved itself and has joined the MDN. The old Liberal Party, reconstituted as the National Democratic Association (ANDE), has decided not to join the new party. The hybrid character of the MDN is already the target of considerable criticism, and it is improbable that such diverse elements can be held together within a single party. If the MDN splinters or does not attain a dominant position, Castillo probably will have to attempt to form a coalition of parties willing to support his government. In either case Castillo will have difficulties in securing sustained and consistent legislative and political support for his moderate policies.

43. To maintain control and to carry out an effective program in the period ahead will require a substantial degree of skill on Castillo's part. Castillo has shown some talent in the past for playing off the extremes against each other. On balance, we believe that if economic conditions do not further deteriorate, Castillo will probably be able to retain office both during and immediately after the period of reconstructing constitutional government.

III. Economic Developments

44. *Characteristics of the economy.* The economy of Guatemala is based primarily on the production and export of coffee. Coffee production amounts to over 1.2 million quintals[4] annually, with most of it going into the export trade. Government-owned lands—largely expropriated from the Germans during World War II—accounted for about one-third of that production at the time of their nationalization. Coffee accounted for 79 percent of total exports, which were valued at about $96 million[5] in 1954. It is the most important single source of Guatemala's revenues; in recent years coffee export taxes have constituted around 20 percent of all government revenues. Moreover, since the major direct tax is on business profits, and since domestic prosperity depends mainly on the coffee trade, a drop in world coffee prices has a multiple deteriorating effect on government revenue.

45. Bananas, the only other major export crop, have averaged roughly 10 percent of the value of exports over the past several

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[4] One quintal = 100 Spanish lbs. = 101.4 English lbs. [Footnote in the source text.]

[5] The Guatemalan quetzal is freely convertible and has been at par with the US dollar since 1924. [Footnote in the source text.]

years. Chicle, lumber, and essential oils are the remaining exports of any significance. However, Guatemala produces a good grade of long-staple cotton, and increasing production may result in a surplus for export this year. There are indications of commercially exploitable oil deposits in the northeastern part of the country, and the Castillo government has prepared a Petroleum Law which it hopes will attract foreign investment while appeasing nationalistic fears of foreign exploitation. Industry in Guatemala is confined largely to the processing of agricultural products and the manufacture of simple consumer goods and building materials. Even such industry depends heavily on imported capital goods, equipment, and raw materials. Power facilities barely meet present requirements.

46. In 1954, Guatemala's GNP is estimated to have been approximately $650 million. While GNP in real terms (constant prices) appears to have been growing at about three percent per year over the period 1950–1954, per capita income changed very little owing to the rapid rate of population growth, estimated at two and a half percent a year. From year to year Guatemala's GNP is subject to wide fluctuations reflecting abrupt changes in the terms of trade which, in turn, are governed largely by the trend of coffee prices. Average saving and investment are relatively low, as in virtually all underdeveloped countries, and are subject to the same short-term fluctuations as the GNP.

47. The book value of direct US investments in Guatemala was $107 million in 1953, almost all represented by the branches and subsidiaries of three US corporations: the United Fruit Company (UFCo); International Railways of Central America (IRCA); and Empresa Electrica, a subsidiary of American and Foreign Power.

48. UFCo controls most of the production and export of bananas in Guatemala. The company operates two divisions: the Atlantic, with its main office at Bananera; and the Pacific, with headquarters at Tiquisate. The symbol of foreign exploitation in Guatemala, UFCo was consistently attacked by the Arbenz regime, which expropriated almost 420,000 unused acres of its total land holdings of about 560,000 acres. UFCo has achieved good relations with the Castillo government. In two contracts UFCo regained about 245,000 acres expropriated from its Pacific division, and agreed to pay taxes on that division's net profits up to a maximum of 30 percent. It also ceded to the government without charge about 110,000 of those acres. A contract covering the Atlantic division remains to be negotiated. However, despite UFCo's improved relationship with the government, and the company's relatively high wage and living standards, it faces a strong residue of hostility in Guatemala. Castillo may have to refrain from making new agreements with UFCo for a time. On the other hand, UFCo has stated its intention of making

large new investments in Guatemala after settlement of the US antitrust suit now pending.

49. The US-owned IRCA operates virtually all of Guatemala's roughly 700 miles of track. It carries most of the country's freight and affords the only means of access by land to the major Caribbean port, Puerto Barrios. UFCo has a 43 percent interest in the IRCA system, which is linked with the fruit company's plantations, and obtains an artificially low freight rate for its bananas. At the same time, IRCA subjects other freight to excessively high charges. As a result, Guatemalans are strongly critical of IRCA and are most anxious for the completion of the Atlantic Highway which will break the railroad's monopoly of land traffic to the Caribbean.

50. Empresa Electrica provides roughly 75 percent of Guatemala's power, and the government controls the remainder. Over two-thirds of the power is derived from hydro stations. Resources are centered around the capital and are only sufficient to provide for the cities and the larger towns. Empresa Electrica proposes to expand its generating capacity through the investment of about $17 million over a ten-year period. However, its plan has not yet been approved by the government, which objects to certain features and considers the company too conservative. Furthermore, in indicating its displeasure with Empresa Electrica, the government has intimated that it might attempt to carry out a power expansion program itself.

51. *Government economic policies.* The economic policies of the Arbenz regime probably retarded economic growth and led to a substantial increase in the public debt. Moreover, the Guatemalan economy weakened considerably following the fall of Arbenz. Despite the aid received from the US the economy has not fully recovered, largely because of unfavorable weather and the drop in world coffee prices. The government has followed conservative fiscal policies and will probably achieve a balanced budget for FY 1956. However, budget revenues and expenditures for FY 1956 are estimated at around $66 million (excluding US aid), compared with last year's approximately $73 million (including the special Liberation tax) and, more important, with the roughly $75 million expended by the Arbenz government during its last year in office.

52. The government has made a number of mistakes in its economic policy. The abrupt halting of public works projects helped to swell the unemployment figure to perhaps as high as 30,000. The government has vacillated in its attitude toward encouraging private investment, it has not instilled sufficient business confidence to insure sustained expansion of the private sector of the economy, and it has failed to make funds available for large public investment.

53. An extensive highway construction program offers the Castillo regime an effective means of coping with both its immediate

and long-range economic problems. With only a few hundred miles of paved roads out of a total of roughly 6,000 miles, the transportation net is wholly insufficient for the economic needs and development of the country. Of the $6,425,000 US aid for FY 1955 (excluding emergency corn shipments) the bulk has been devoted to the road-building program, with Guatemala contributing about half as much as the US. The main effort is on the Inter-American Highway and on improving a highway, paralleling the Pacific coast, which traverses the richest agricultural area in Guatemala. Work on the final quarter of the all-weather Atlantic Highway to Santo Tomas will begin as soon as funds can be made available. The Castillo administration has applied to the IBRD for a $20 million loan to finance local costs of highway construction, as well as for various development projects requiring agricultural machinery and for industrial plants.

54. *Economic prospects.* The Castillo government faces acute short-range economic problems. The most serious of these is the failure of the corn crop. The ability of the Castillo regime to meet this crisis will depend largely on the promptness and adequacy of US assistance. Serious dislocations in the rural economy not only would have a depressing effect on the entire economy, but would increase public dissatisfaction with the regime. Another serious problem is unemployment. However, we believe that the present level of unemployment will not confront the Castillo regime with insuperable difficulties during the summer months. With the end of the rainy season in late fall, unemployment probably will be reduced by increased activity on the highway projects and an expansion of the public works program. If Castillo makes substantial progress with these problems, and impresses political elements with the effectiveness of his leadership, a rise in business confidence and activity is likely to result.

55. Over the longer haul, substantial economic improvement will depend on an expansion of capital investments, public and private, including development of the Pacific coastal area. The present volume of private investment cannot readily be assessed, and there is no concrete evidence of any large-scale repatriation of capital. On the other hand, Guatemala's reserves of gold and foreign exchange have been steadily rising and now stand at a new record figure of about $57 million, possibly indicating some repatriation of capital. In 1953, when coffee prices were roughly equal to the present levels, private investment was estimated at about $39 million. Once the public works program gets fully underway and if coffee prices remain stable, business confidence will probably improve sufficiently to insure a level of domestic capital investment at least equal to that of 1953. Moreover, assuming that the IBRD loan

is granted, that the government consequently will not have to finance highway construction in FY 1956, and that the cost of government operations will remain approximately constant, the Castillo regime probably will be able to maintain public investment next year at close to the 1953 rate of $29 million.

56. On the other hand, there will almost certainly be a gradual expansion of government expenditures over the next several years as land reform measures are adopted, expropriation claims are settled, and public health, education, and other social services make greater claims on the treasury. In these circumstances, a considerable revision of the tax structure will be required if government deficits are to be avoided. The Castillo government has drawn on US technical assistance funds to employ American consultants to revamp thoroughly both the tax laws and customs tariffs with a view toward increasing government revenue. A program for Guatemala's first income tax is also being readied, and there are indications that it will be accepted, though with resignation, even by the professional class so long as the rates are kept as moderate as is now envisaged.

57. Completion of the new Pacific highway will probably result in development of the Pacific coastal land and constitute one of the most promising aspects of Guatemala's future. Already expanding coffee production probably will accelerate, even in a period of low prices, if there are stable political conditions, and if world demand remains at approximately present levels. There is also at least an even chance that oil will be exploited in profitable quantities, and that the Lake Izabal area will yield increased exports of lumber and wood products.

IV. International Relations

58. The principal objectives of Guatemala's foreign relations under Castillo are: (a) closer ties with the US; (b) improved relations with immediate neighbors; and (c) the end of the country's isolation in hemispheric affairs.

59. The Castillo administration has been consistently pro-US in its policies and attitudes, seeking advice and assistance on many domestic problems and cooperating closely on international questions. In fact, Castillo may have damaged his potential capacity for leadership by excessive reliance on US advice and aid. At the same time, Castillo and, to a greater degree, his associates on occasion suspect the motives of representatives of the US. Nevertheless, Castillo's friendship for and reliance on the US is the most stable element in Guatemala's foreign affairs.

60. Guatemala's relations with its neighbors have greatly improved under Castillo, largely because of the moderate character of his administration and the cessation of Guatemalan Communist

propaganda activities in those countries. At Castillo's request, Guatemala was readmitted to the Organization of Central American States (ODECA) and is to play host at its scheduled summer meeting. Furthermore, Guatemala has completed, or is negotiating, commercial treaties with Costa Rica, Honduras, Nicaragua, and El Salvador. Potential friction exists, however, between Guatemala and its neighbors because of ideological and personality conflicts. Castillo reportedly distrusts Osorio of El Salvador, although to date their official relations have not been unfriendly. His suspicious attitude toward Figueres of Costa Rica is owing partly to ideological differences and partly to the latter's noncommittal position during the 1954 Liberation. On the other hand, Castillo has friendly ties with Somoza of Nicaragua and Perez Jimenez of Venezuela. In any case, because of his domestic problems, his ties with the US, and his moderate nature, Castillo is unlikely to meddle actively in Central American politics unless a clearly unfriendly government comes to power in a bordering state.

61. Mexican-Guatemalan relations were strained in 1954 as a result of Mexico's position as sanctuary for the majority of Guatemalan Communist and Arbencista leaders. However, Mexican authorities recently have imposed close surveillance over the important Guatemalan exiles and have prohibited their political activities. The conclusion of a trade agreement for importing Mexican corn, the informal visit of ex-President Aleman to Castillo, and the appointment of a top-ranking Mexican ambassador to Guatemala have contributed to improved relations between the two countries.

62. The Castillo government has also taken steps to re-establish Guatemala's prestige in hemispheric affairs by rejoining ODECA, adhering to the Caracas Resolution, and depositing its ratification of the OAS Charter and the Rio Treaty. On the other hand, the Castillo administration has reaffirmed Guatemala's traditional claim to British Honduras. Reservations to this effect have been appended to Guatemala's ratification of both the Rio Treaty and the OAS Charter. Despite the emotional strength of this issue, however, it is unlikely to prove a source of serious friction in the area during the foreseeable future.

V. Prospects for Stability in Guatemala

63. We believe that if Castillo survives his immediate economic and political difficulties, with continued US support he will have a better than even chance of governing for the next few years.

64. Castillo probably will resist extremist pressures and continue to adhere to the moderate course he has followed to date. If he maintains his prestige as a mediator, he will probably be able to retain much of his present authority even in the face of an unruly

legislature. He may also be able to make further progress in unifying the armed forces behind him. Thus, Castillo may be able to remain in office long enough to establish the basis for responsible constitutional government.

65. On the other hand, if the Castillo government should be overthrown, Guatemala would probably experience a protracted period of political instability. Rightist elements are more likely to be able to achieve this overthrow than any other group.[6]

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[6] A map of Guatemala, attached to the source text, is not printed.

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36. Editorial Note

President Castillo Armas and his official party visited the United States October 31–November 13. President Eisenhower, who suffered a heart attack on September 16, was in Denver, Colorado; Vice President Nixon acted as host during Castillo's visit to Washington, October 31–November 3. For text of President Eisenhower's message to Castillo upon his arrival in Washington, see Department of State *Bulletin,* November 14, 1955, page 790. For text of remarks by Acting Secretary Hoover upon Castillo's departure from Washington, see *ibid.*

In a memorandum to Acting Secretary Hoover, October 31, Assistant Secretary Holland recommended that President Castillo Armas visit President Eisenhower during Castillo's trip through the United States. Holland wrote that his reasons for this recommendation were as follows: "(1) He led the first liberation movement ever to free a nation which had fallen captive to international Communism. (2) He heads a small, weak country. The visit would emphasize the fact that President Eisenhower's attention is not absorbed exclusively by the problems of the major powers." (Department of State, Central Files, 714.11/10–3155) In a memorandum to President Eisenhower, dated November 4, Hoover wrote that the proposed visit with President Castillo would not involve discussion of any substantive issues. (*Ibid.,* 714.11/11–455) In telegram 73 to Geneva, November 10, for Secretary Dulles, who was in Geneva to attend the meeting of Foreign Ministers, Hoover reported on the visit of Presidents Eisenhower and Castillo as follows: "The meeting this morning between the President and Castillo Armas at the hospital in Denver was a purely social occasion (the families were also present) and no substantive matters were touched upon. The President seemed in excellent form and Castillo Armas conducted himself with the same dignity and sincerity which has characterized his trip throughout the United States." (*Ibid.*, 714.11/11–1055)

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37. Memorandum of a Conversation, Department of State, Washington, November 21, 1955[1]

SUBJECT

Guatemala: National Economic Planning Council

PARTICIPANTS

Mr. Burke Knapp, Regional Director for Latin American IBRD
Ambassador Sparks
Mr. Newbegin (MID)
Mr. Fisher (MID)

Mr. Knapp expressed satisfaction in the way the National Economic Planning Council in Guatemala was developing. He said that Colonel Oliva,[2] a member of the Commission and Chairman of the Council of State, had not been enthusiastically supporting the Council and that there was a tendency to carry projects directly to the President for decision without reference to the Council. However, Mr. Gordon,[3] IBRD representative in Guatemala, has reported an encouraging trend toward channeling important economic matters through the Council.

Mr. Knapp said that Mr. Julien Saks of Klein and Saks had recently called on him, reporting that Colonel Oliva had suggested that the Klein-Saks mission in Guatemala provide a technical staff for economic development, planning and coordination in the office of the President. Mr. Knapp said that he told Mr. Saks that in his view such a development would be undesirable and unfortunate and would undermine the Planning Council. According to Mr. Knapp, Mr. Saks agreed that the idea was unwise and that encouragement should be given to the Planning Council. Mr. Knapp said that he understood that Mr. Tewksbury of the Klein-Saks mission in Guatemala had been attending the Planning Council meetings.

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[1] Source: Department of State, Central Files, 814.00/11–255. Limited Official Use. Drafted by Fisher.

[2] Juan Francisco Oliva, half brother of Enrique Trinidad Oliva.

[3] David Gordon.

Ambassador Sparks said that Mr. Tewksbury had not been attending the Council meetings and that the Embassy and ICA had no observer or representative in the Council organization. Ambassador Sparks thought that this was an important shortcoming; the United States Government had a broad interest in the economic development of Guatemala; it was our objective to help foster establishment of stable economic conditions, and we were executing significant policies toward that objective. Our Government was accountable to the United States Congress, not only for the proper expenditure of United States aid funds provided, but for assurance that Guatemala was making adequate use of its own resources.

Ambassador Sparks said that, in the first place, he intended to be informed of the Planning Council's activities insofar as they affected United States relations with Guatemala. He had been disturbed by occurrences showing lack of adequate coordination among the various entities concerned with the economic program in Guatemala. The Planning Council had suddenly released to the press late in October an elaborate five-year plan calling for expenditure of $247 million. The plan included provision for $16 million in United States grant aid, which we had not heard about before. The Ambassador disliked to be taken by surprise by such announcements. He understood that Mr. Gordon had had much to do with the economic planning of the five-year plan. Secondly, Ambassador Sparks said the Guatemalan Government suddenly announced an invitation to bid on the Pacific Slope Highway without any advance notice to the Embassy. The announcement was premature in that the Embassy had not been notified whether ICA funds could be used on projects submitted to international bidding, and the ICA had not yet announced allocation grant aid for FY 1957, from which the substantial portion of the Pacific Slope cost would be paid. Another example of lack of coordination, but one which would not concern IBRD, was the fact that the ICA Country Director came to Washington to present the FY 1957 development assistance program without even being aware that the Guatemalan Government had reported out a $5 million budget surplus for the current fiscal year. Ambassador Sparks said that his objective was to achieve maximum coordination and that to this end he desired that the Klein–Saks mission have a representative on the Planning Council to keep the Embassy informed in detail on its thinking. This representative might offer appropriate suggestions or even recommendations to the Guatemalan Government as circumstances warranted. Mr. Knapp said that he had not known of the $247 million total of the five-year plan or that it had been announced without advance knowledge by the Embassy. He was aware that Mr.Gordon had helped draft the plan but disclaimed major responsibility for it. Mr. Knapp said that he thoroughly agreed that the United States Government should have an observer or representative on the Planning Council. He said that he had believed all along that Mr. Tewksbury had been attending the Council meetings in this capacity, or at least to watch out for matters in which the Klein–Saks mission would have a direct interest. Mr. Knapp gave assurance that the bank had not resisted and would not resist the inclusion of a Klein–Saks representative on the Planning Council. However, he thought that if the Klein–Saks mission went into the Commission and expanded its function so as to dominate all its operations, the IBRD mission would become superfluous and would be withdrawn.

Ambassador Sparks emphasized that Mr. Gordon was an excellent man held in high regard by the Embassy as well as by the Guatemalan Government, and that he had no intention of seeking his removal.

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38. Memorandum of a Conversation, Department of State, Washington, February 20, 1956[1]

SUBJECT

Guatemala: Electric Power Problem

PARTICIPANTS

Ambassador Cruz Salazar
ARA—Assistant Secretary Holland
MID—John W. Fisher, Guatemalan Desk Officer

Ambassador Cruz said he had just returned from Guatemala. President Castillo had instructed him to call on Mr. Holland and inform him of his administration's concern over the electric power problem.

Ambassador Cruz said that the power problem was fundamentally political. Public opinion was oriented, not toward what the company[2] could do in the future, but what it had done in the past. The Ambassador said that the company had a record of poor service, high rates, lack of foresight, and generally deteriorating public relations. He said that under today's circumstances, if the government were to attempt to sign an agreement with the company on any of the bases which it has thus far proposed, the administration would suffer serious loss of the prestige which it has so laboriously built up since the 1954 liberation. He recalled that the communists and their sympathisers had accused the three United States companies operating in Guatemala of having financed the liberation movement, and the Castillo Armas government of being a "vende-patria". The government had made much progress toward demonstrating by its actions that it is sovereign and independent and not beholden in any way to the foreign companies. A contract on the terms proposed so far by the company would dangerously weaken the administration's position, reviving and intensifying the old charges.

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[1] Source: Department of State, Central Files, 814.2614/2–2056. Drafted by Fisher and approved by Holland.

[2] The American and Foreign Power Company.

Ambassador Cruz said that the electric power problem had its difficult economic aspects too, but that the failure of the company to come forward with timely measures and to exercise any political vision had transformed the economic problem into a political one of major proportions. That was why the government had decided it would have to build the Marinalá plant.[3]

Ambassador Cruz said that President Castillo Armas and the administration continued firm in their conviction that the key to Guatemala's economic development lay in fostering private enterprise. The government's attitude on the electric power problem was not the result of any preference for public over private enterprise but was dictated purely by the political circumstances. He said that his government would continue to work for the maximum participation of private capital in the development of the country.

Mr. Holland said that our general policy on the financing of economic development in this hemisphere applied uniformly to all twenty countries. The present policy, which this administration had put into effect only with immense effort, provided that the IBRD and Eximbank could consider financing, without limitation, those economic development programs in the hemisphere for which private capital was not available. Adoption of this policy had already resulted in manifold expansion of Eximbank credits in the area and promised a rate of economic progress in the coming years which had not even been dreamed of up till now.

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[3] In a memorandum of conversation by Fisher, February 16, Burke Knapp is recorded as having stated that the Bank had urged the Guatemalan Government to "exhaust the possibilities of a reasonable arrangement with the Company for constructing new capacity, but that the Company seemed to have accepted with puzzling alacrity the Government's disposition to halt the talks and proceed to build the plant itself." According to the memorandum, Assistant Secretary Holland stated that the Department of State "had thrown as much cold water as it could on the Guatemalans' ideas of public power and held to the hope that the Company would come forward with some imaginative proposals which could enable the Government of Guatemala to claim a feather for its cap and obtain political acceptance of a reasonable agreement." The memorandum further stated that William Stafford, Vice President of the Power Company, asserted that the company was determined to continue its efforts to make an agreement with the Guatemalan Government. (Department of State, Central Files, 814.2614/2–1656)

Mr. Holland said that the banks mentioned were convinced of the soundness of this policy and that he did not believe that they would deviate from it. He said that he himself shared the same conviction; but that even if he attempted to persuade the banks to make an exception in the case of Guatemala, he was certain his effort would meet with failure. Furthermore, Mr. Holland said, if he were to make such an effort, the critics of the above mentioned policy would strongly attack the administration for betraying its own principles and would dangerously weaken if not destroy the policy.

Therefore, Mr. Holland said, the Guatemalan electric power problem, insofar as concerned its financing by international or United States government institutions, also presented us with an extremely difficult political problem in addition to the economic one.

Mr. Holland said that he was certain that neither IBRD nor Eximbank would finance a government power project in Guatemala as long as private capital was available to it.

Mr. Holland said that he felt that the possibilities of reaching a completely new kind of arrangement with the company, satisfactory to all concerned, had not yet even been scratched. He urged the Ambassador to think of the present problem as being an opportunity for Guatemala to obtain not only an additional power plant but to bring about a complete modernization of its power generating and distributing system, without cost to the government. He cited the example of Mexico, where a Canadian company entered into an arrangement with the Mexican Government whereunder it was enabled to return a modest dividend on its operations and at the same time expand and modernize its facilities.

Mr. Holland said that the Department had been trying to persuade the American & Foreign Power Company to do some imaginative and resourceful thinking on the Guatemalan power problem, and he understood that Mr. Sargent,[4] President of the company, was prepared to go to Guatemala with the company's best offer to discuss it with the Guatemalan government. Mr. Holland said that the company clearly would have to do many things to help the government solve its political problem, but that the Government for its part would also have to meet the company with a sincere desire to collaborate in devising a satisfactory arrangement.

Mr. Holland said that he understood that the company was willing to construct the Marinalá plant and had given up its insistence on its own project. Ambassador Cruz said that the company had in fact previously expressed willingness to build Marinalá but at a cost above that estimated by other engineers. Mr. Holland observed that the difference was in the estimates, and that the actual costs would turn out approximately the same regardless of who built it, assuming it was done under competitive bidding.

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[4] Henry Sargent.

Ambassador Cruz said that he recognized that the United States Government had an important political problem as well as an economic one with respect to the financing of a power plant in Guatemala. He assured Mr. Holland that the Guatemalan Government had no intention of throwing up its hands and proceeding with construction of a new plant regardless of our attitude, even though French companies, among others, had offered to provide financing for a government project. He said that he expected that the final decision would be taken only with full consideration of the views of the United States Government, which had done so much to assist Guatemala's recovery from the ruinous conditions left by the communists.

Ambassador Cruz said that he agreed with Mr. Holland that the solution of the power problem would have to be found in some new approach.[5]

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[5] A memorandum of conversation, February 24, reported that Holland discussed with Stafford the Power Company's draft plan for an electric generating plant in Guatemala. The memorandum reads in part: "Mr. Holland said that he was glad to see that the company's present draft referred only to possible acquisition by the government after 20 years. He saw no objection to the company's agreeing to a plan for full amortization of the plant for reversion to the government at the end of that period, if that were the only way to reach any agreement with the government. He observed that it was only postponing government ownership, but that it was very much better than starting out with a government ownership plan." (Department of State, Central Files, 814.2614/2–2456)

39. Memorandum of a Conversation, Department of State, Washington, April 24, 1956[1]

SUBJECT

Guatemala: IBRD and Klein & Saks Missions

PARTICIPANTS

Mr. Burke Knapp, IBRD
Mr. Rollin Atwood, ICA
ARA—Assistant Secretary Holland,
MID—John W. Fisher, Guatemalan Desk Officer

Mr. Knapp said that Mr. David Gordon, IBRD representative in Guatemala, had been there about a year and a half. Things had gone smoothly until recently, when the Embassy began to show signs of dissatisfaction and to push the Klein & Saks Mission forward, presumably to be the U.S. Government voice in the National Economic Planning Council.

Mr. Knapp said he had discussed the question of the two missions and their respective functions with Ambassador Sparks and Mr. Newbegin last November.[2] At that time he gave every assurance that IBRD would welcome participation by the Klein & Saks Mission in the work of the Planning Council. Subsequently, Mr. Gordon even offered his good offices to Ambassador Sparks to pave the way for Mr. Tewksbury, Klein & Saks mission head, into the Planning Council work. Mr. Knapp said he was surprised that Mr. Tewksbury had never gotten into the Planning Council's discussions.

Mr. Knapp said that Mr. Gordon's function was more than merely to look out for IBRD interests; he was there to offer advice on broad questions of economic development. Mr. Knapp said Mr. Gordon had done excellent work, and had got the Planning Council off the ground, thus completing an initial phase of the work to be done. However, Mr. Gordon had received severe criticism, most of which Mr. Knapp said was unjustified. However, it might be that his usefulness in Guatemala was coming to an end. Coincidentally, there were other administrative and personal factors which made it desirable to take Mr. Gordon out of Guatemala around July 1956. The question was whether the Bank should replace him. Mr. Knapp inquired what the Department wanted the Klein & Saks Mission to do with respect to the Planning Council.

Mr. Holland asked Mr. Atwood's views. Mr. Atwood said that the United States did not seek to direct or dominate the Economic

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[1] Source: Department of State, Central Files, 814.00/4–2456. Confidential. Drafted by Fisher.

[2] See Document 37.

Planning Council, which was an agency entirely under the jurisdiction of the Guatemalan Government. Mr. Atwood said that while the Klein & Saks Mission was in Guatemala to give badly needed technical advice in the specific fields of budget, taxation, etc., its primary purpose was to act as watch dog to help the new and inexperienced administration avoid making serious blunders in the economic field. Mr. Atwood agreed that Mr. Tewksbury had not put himself into a position to fulfill this mission to the extent desired. Although he closely followed the work of his specialists and undoubtedly had a wide knowledge of what was going on, he lacked time to sit with the Planning Council and to keep the Ambassador as fully informed as the latter wished. Last September Mr. Atwood instructed Mr. Tewksbury to get closer to the Guatemalan Government in order better to carry out the watch dog function. Mr. Atwood said that the Secretary General of the Planning Council refused to permit Mr. Tewksbury's successor, Mr. Quinn, to participate in the work of the Council, and that Mr. Atwood was informed that this was because Mr. Gordon had stated that IBRD would pull out of Guatemala if the Klein & Saks Mission entered into the Council's work.

Mr. Knapp denied that Mr. Gordon had obstructed the Klein & Saks Mission from getting into the Planning Council.

Mr. Holland asked Mr. Fisher for his views. Mr. Fisher said that his information was that President Castillo's Office requested in writing on March 2nd that Klein & Saks assist the Planning Council and that the Council's Secretary had subsequently informed Mr. Quinn that he opposed such assistance. We did not know exactly what was going on behind the scenes.

Mr. Holland referred to the Guatemalans Five-Year-Plan, and said he understood it was "poppycock". He understood the Plan provided for a $250 million development program, and, without being consulted, the United States was put down for part of the cost.

Mr. Knapp said he did not consider the Plan "poppycock", and that he thought Mr. Holland was misinformed. He briefly explained that the Plan only referred to a balance of $16.6 million for FY 57 not otherwise accounted for, and in a footnote stated that ICA was considering the question of this deficit. At this point Mr. Holland had to leave the meeting.

Mr. Fisher said that he would not himself describe the Plan as poppycock. He said that President Castillo had solicited the comments of this Government on it, which we had found exceedingly difficult to supply. At our request, Klein & Saks had prepared some comments, but this obviously was an ineffectual procedure, giving rise to unnecessary friction and misunderstandings. The best arrangement would have been for Klein & Saks to contribute the benefit of their knowledge and experience during the drafting stage.

Mr. Knapp said that his conception of Klein & Saks' function was to follow up on Planning Council decisions, giving technical advice on the execution of agreed projects. In his view, their function did not include the offering of advice on the broad problems of economic development planning. He believed that if they were to undertake this duty, there would be no reason for the Bank to have a mission there.

Mr. Atwood said that Klein & Saks should be included in the Planning Council discussions, but that the mission would not have the same terms of reference that Mr. Gordon apparently had. Mr. Atwood said that people in Guatemala, including President Castillo, referred to the Five-Year Plan as Gordon's Plan.

Mr. Knapp denied that Mr. Gordon had written the Plan himself or that the Bank had any responsibility for it, but conceded that Mr. Gordon had been very helpful to the Council. Mr. Fisher said that he still found contradiction between Mr. Knapp's statement that IBRD would welcome Klein & Saks participation in the Planning Council work and the statement that Klein & Saks should perform only follow-up technical advisory duties. If that were the case, they would only continue doing about what they had done from the outset and would have little to contribute to the Planning Council's deliberations.

Mr. Knapp said he disagreed, that there was plenty for Klein & Saks to do in the Planning Council without taking over the kind of work which Mr. Gordon had been doing.

Mr. Knapp said he was going to meet with Dr. Klein, of Klein & Saks, to discuss the functions of the IBRD and Klein & Saks Missions.

40. Memorandum of a Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and the Regional Director for Latin America, IBRD (Knapp), Department of State, Washington, April 26, 1956[1]

SUBJECT

Guatemala: Klein & Saks Economic Advisory Mission

Mr. Holland telephoned Mr. Burke Knapp of the IBRD today with further reference to the meeting in Mr. Holland's office on April 24 which Mr. Holland had to leave. Mr. Holland said he recalled that Mr. Knapp had asked him, shortly before he left the meeting, what Mr. Holland thought was the extent to which the United States should concern itself with the decisions in the economic field of the Guatemalan Government, and its development. Mr. Holland said he felt that the United States should participate from the moment the Guatemalans hit on an idea in all phases of analysis and reaching decisions, drafting of plans or decisions—in short, in every phase of their planning as long as the United States Government is carrying the heavy responsibilities it is in that country. He feels that there is no aspect of their internal affairs of which we should not be aware, concerned and vigilant.

Mr. Knapp said that their discussion of this point on April 24 had referred to active participation and Mr. Holland emphasized that he included active participation in his thinking on the matter.

Mr. Knapp stated that he believed Mr. Holland might have made this statement a few years ago but he felt that the situation was no longer the same in the sense that it made a "fifth wheel" of the IBRD. Mr. Holland said that he was not well enough informed to comment on this aspect, but that if Mr. Knapp felt it justified the use of the time, Mr. Holland would be happy to make a serious study of this aspect and give Mr. Knapp his further considerations on the point. His purpose at the moment was only to give Mr. Knapp his feelings on our function in Guatemala—that he believed that the Guatemalan Government would not have survived and cannot yet survive if we do not discharge this function.

Mr. Knapp said he felt Mr. Holland need give the subject no further study until IBRD reaches a decision on what they will do in the area. Mr. Knapp stated his belief that it is probable that IBRD will decide to terminate its mission there and devote its efforts elsewhere, and he emphasized that, if this proves to be the case, such action will be taken in the best of spirit, it will not be done in pique nor will it affect in any adverse way future relations between Guatemala and the IBRD as regards future loans.

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[1] Source: Department of State, Central Files, 814.00/4–2456. Confidential. Drafted by Barbara E. Dunlap.

He also mentioned that he had heard it said that Mr. Atwood had heard that Mr. David Gordon opposed the activities of Klein-Saks. Mr. Knapp said that he had gotten out a file of letters from Mr. Gordon and had called Mr. Atwood and told him that the letters contained only statements to the effect that there obviously had been a misunderstanding. Mr. Knapp said he believed the matter had been cleared up with Mr. Atwood.[2]

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[2] In a memorandum of a telephone conversation, April 30, Knapp informed Holland that the IBRD mission in Guatemala would be terminated to "let Klein-Saks pick up the operation." (*Ibid.*, Holland Files: Lot 57 D 295, Guatemala) In a letter to Holland, May 28, Knapp wrote: "Just a note to let you know that, upon an urgent request from the President of Guatemala communicated through the Ambassador here, we have agreed to extend Mr. David Gordon's assignment in Guatemala until the end of September. The Guatemalans are apparently unhappy about our announced intention to terminate the Mission at that time, but we have made clear to them that this is a firm decision." (*Ibid.*, Guatemala Files: Lot 60 D 647, IBRD)

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41. Memorandum of a Conversation, Department of State, Washington, May 10, 1956[1]

SUBJECT

Guatemala: United Fruit Company Anti-Trust Case

PARTICIPANTS

Ambassador Cruz-Salazar of Guatemala
ARA:MID—Mr. John W. Fisher, Guatemalan Desk Officer; Mr. Bayard King

Ambassador Cruz said that officers of the United Fruit Company had approached him to seek assistance in their efforts to reach a satisfactory settlement of the anti-trust action filed against them by the U.S. Department of Justice.

Ambassador Cruz said that he would like to help the company in this matter, but any such help would have to be given in the most discreet way because of disastrous political repercussions in Guatemala, both for the Administration and for himself, were it to become known publicly that any help had been given the United Fruit Company. The Ambassador said that anti-company propaganda generated in the past by communists in Guatemala had been successful in causing deep dislike of the company there. He said he would have to proceed with extreme caution in taking any action or in recommending to his Government that it take any measures, and he asked Mr. Fisher for any suggestions he might have.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Guatemala. Secret. Drafted by Fisher.

Mr. Fisher agreed that it is a most delicate problem and said he intended to make a confidential memorandum of this conversation which would circulate through channels, and that the Ambassador's desires with regard to helping the company, as well as the necessity for secrecy in his doing so, would come to the attention of his superiors in the Department. He would inquire of them whether they had any suggestions, and if so, he would inform the Ambassador accordingly.

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42. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, June 12, 1956.

SUBJECT:

Grant aid to Guatemala

An amendment to the Mutual Security Act has been passed by the House of Representatives to increase grant aid to Guatemala from $10,000,000 to $15,000,000 for fiscal 1957.

I understand that ICA has taken a position opposing this increase on the grounds that it cannot be justified for Guatemala. If the Congress wishes to appropriate this sum for Latin America, without earmarking it for Guatemala, ICA would have no objection.

In my judgment it would be very unwise politically for the Department of State openly to oppose this increase. Our opposition will be exploited for demagogic purposes as a withholding of aid from "little Guatemala" who "drove the Communists out".

I recommend that the Administration position be the following:

The Administration originally requested $5,000,000 of grant aid for Guatemala. The Foreign Affairs Committee raised this figure to

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[1] Source: Department of State, Central Files, 714.5–MSP/6–1256. Confidential.

$10,000,000. In agreeing to this increase, the Administration felt that if more were needed it would be provided from other sources. If the Congress elects to appropriate an additional $5,000,000 for Guatemala the Administration will try to see that it is constructively utilized.

Recommendation:

That you seek Mr. Hollister's concurrence in the above position.[2]

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[2] A handwritten notation on the source text by Robert G. Barnes reads: "I concur in the policy but do not see the value of the recommended action at this stage." In a second notation, Hoover wrote: "Concur with Mr. Barnes." In telegram 336 to Guatemala City, June 8, the Department informed the Embassy that on June 7 the House of Representatives approved an additional $10 million grant to Guatemala, raising the total appropriation for fiscal year 1957 to $15 million. (*Ibid.*, 714.5–MSP/6–856)

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43. Memorandum From the Chief of the Special Research Staff, Central Intelligence Agency (Durand) to the Director of Central Intelligence (Dulles)[1]

Washington, June 19, 1956.

SUBJECT

The Political Situation in Guatemala

1. The Communist Party of Guatemala, which was decisively defeated two years ago, seems to be well on its way toward recovery, while the present government under Castillo Armas is displaying increasingly serious weaknesses. Although there is no reason to believe that the government is likely to be overthrown by external or internal forces within the next few months, there is good ground for concern over its longer range prospects.

2. The CP of Guatemala, outlawed since the overthrow of the Arbenz regime and harassed by the security forces of the present government, has managed to reconstitute its underground organization, to set up new cells and to recruit new members "according to plan". . . . Its exiled groups appear to be well entrenched in neighboring countries, especially in Mexico. They have been able to smuggle clandestine literature into the country. . . . Some exiled

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[1] Source: Department of State, Eisenhower Library, Project Clean Up Records. Secret.

officials of the Guatemalan CP hold positions in international Communist organizations. For example, the Communist labor union leaders Victor Manuel Gutierres and Carlos Manuel Pellecer are employed by the CTAL in Mexico and by the WFTU in Prague, respectively. . . .

3. Both in the underground inside the country and among the exiles abroad, the Communists, though a minority, appear to play a key role. As a result of better organization, stricter discipline and foreign support, they are able to continue the function of "leading minority" which they exercised so effectively during the Arbenz regime. There have been reports that "The Communists are now in control. . . . [2] They occupy more and more public posts." . . . "The Communist exiles are in day-to-day contact with covert associates . . . [2] within the present government". . . . These reports are probably biased and exaggerated, but they indicate that at least the "negative prestige" of the Communist Party is again rising among its enemies.

4. Whatever the actual strength of the Guatemala CP may be, it would not cause us serious concern if we could rely on the basic stability of the Castillo Armas regime. Its security forces seem to be alert against the Communist underground, as the latter is forced to admit. . . . The government is reported to have undertaken considerable anti-Communist propaganda (cf. Joint Weeka #20, U.S. Embassy Despatch 683).[3] Nevertheless the overall political, economic and social position of the Government is such as to cast doubts on its ability to maintain a firm check on the forces of subversion.

5. When Castillo Armas overthrew the Arbenz regime, he was welcomed and supported by most of the non-communist elements in the country. Today, however, many of Castillo's supporters appear either to have turned against him or to have withdrawn into apathetic indifference. His support among the professional officers of the Army appears to have been weakened, and some of the officers in key positions are reported to have joined the opposition. His political party won the elections to the Constituent Assembly only through the use of concentrated government pressure and in the face of popular lack of interest. Several anti-Communist sources have accused his government of widespread corruption in high places and of general inefficiency. . . .

6. The mass of the population of Guatemala consists of poor peasants, including laborers, farm and industrial workers or artisans. These were the two sources of Communist strength under the Arbenz regime. Castillo Armas removed the Communists from the

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[2] Ellipsis in the source text.

[3] Not printed.

leading positions in farmers' and labor unions and corrected certain excesses of the Communist-sponsored agrarian reforms, but he has failed thus far to offer peasants and workers a constructive alternative. Peasant labor unions have been restricted to farms employing more than 500 hands, leaving the great majority without any representation. . . . Labor dissatisfaction with the Castillo Armas regime came into the open on May day. "The workers, in an apparently well-planned maneuver, booed the scheduled speakers, some of them government officials, off the platform and cheered five substitutes, some of them leaders under the regime of Arbenz. These speakers took over the meeting and vigorously attacked the Government's labor policies". (*New York Times,* 6 May 1956, "Unrest of Labor Stirs Guatemala").

7. In the opinion of SRS, steps should be taken immediately to cope with the adverse trends which are beginning to appear in Guatemala. It goes without saying that the downfall of the Castillo Armas regime would be a major blow to US prestige and a powerful propaganda theme for International Communism. We suggest that measures to strengthen the present government should not be limited to economic aid, but should provide guidance toward greater political stability, broader popular support, increased administrative efficiency and progressive solutions of the social and economic problems of the country.

Dana B. Durand[4]

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[4] Printed from a copy which bears this typed signature.

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44. Telegram From the Ambassador in Guatemala (Sparks) to the Department of State[1]

Guatemala City, June 26, 1956—8 p.m.

363. For Holland. I saw President Castillo last night 8 p.m. He had received communication from Ambassador Cruz on grant aid developments in Congress. He thought it essential at this time Department support $15 million approved by House which he considered would strengthen his government locally. He thought if you did not support this amount Congress might not approve it which action would be misinterpreted in Guatemala.

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[1] Source: Department of State, Central Files, 714.5–MSP/6–2656. Secret; Priority.

I again explained Congressional developments outlined Department telegram 336 June 8[2] and assured him of our support, stressing necessity projects be fully justified. President felt his original request had been based on five-year plan and fully justified. I agreed transmit his request to you.

Since executive reserves right to expend only that part of appropriation which it considers necessary and in view present uncertainty as to exact amount Congress may eventually appropriate for Guatemala, I offer for consideration following action prior June 30:

1. Restore $1.2 million diverted from approved project to cover deficit on Pacific Slope Highway and
2. Authorize commitment $4 million from available surplus funds to insure minimum $9 million of new funds for FY 1957. Should Congress eventually appropriate $15 million naturally we would expend only that part required achieve our objectives in Guatemala.

Foregoing positive action would be interpreted as continued US support of President Castillo.

Sparks

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[2] Not printed.

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45. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, June 26, 1956.

SUBJECT

Situation in Guatemala

I want to give you a résumé of information we have received on the present situation in Guatemala, as of this afternoon.[2] A fuller summary is attached (Tab A).[3]

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[1] Source: Department of State, Central Files, 714.00/6–2656. Secret. A handwritten notation on the source text indicates that the Secretary was informed of this memorandum and that it was seen by Under Secretary Hoover.

[2] In notes of the Secretary's Staff meeting, June 25, Assistant Secretary Holland offered the following report on the situation in Guatemala: "The Secretary asked Mr. Holland if Guatemala was 'blowing up'. Mr. Holland replied that he doubted that Castillo's position was weakening but that recent events are indicative of his basic problems. Mr. Holland added that he thought the economic situation was pretty good.

For some time rumors of revolutionary plottings against the Guatemalan Government had been growing, and this has caused uneasiness within the Government and in President Castillo Armas himself. Probably because of reports that disturbances to be led by communists and leftists, but to include students, were scheduled for June 24th or 25th, Castillo on June 23rd, in accordance with the Law of Public Order, decreed a "State of Alarm", temporarily suspending certain constitutional guarantees, and forbidding demonstrations by students or other persons. Despite this Government measure, a demonstration of about 300 persons took place in Guatemala City on June 24th; the police arrested fifty, mostly students, but including leftist agitators.

The following day several hundred students reportedly gathered in a meeting at which inflammatory anti-Government speakers presided, and several hundred students were persuaded by the speakers to march on the Presidential Palace to protest the arrests of those detained by the police after the demonstration of June 24th. Several hundred took part in this march. At one point three cars each containing six men, dressed in civilian clothes, met the procession. The men in the cars were armed with machine guns and initially fired into the air, probably to disperse the procession, but later fired into the marchers, killing at least six of them and wounding many more. The Government has since decreed a more severe state of emergency known as a "State of Siege" as provided by the Law of Public Order.

This afternoon we telephoned Ambassador Sparks. He said that though the situation is unsettled, Castillo appears in complete control, and other reports have indicated that the President is supported by Army and political leaders.

Before commenting further he would await Ambassador Sparks' reports." (*Ibid.*, Secretary's Staff Meetings: Lot 63 D 75)

[3] Not printed.

46. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, June 29, 1956.

SUBJECT

Situation in Guatemala

The following information, based primarily on a series of telegrams from Ambassador Sparks, is intended to supplement my memorandum of June 26 and to bring you up to date on the Guatemalan situation.

Since the events of June 25, in which 5 students and one policeman were killed and a number on both sides wounded, the situation has been relatively quiet, with President Castillo Armas and the army in control. Castillo has assured Ambassador Sparks that the Guatemalan armed forces concurred fully in the cabinet decision to meet force with force. The President's position vis-à-vis the army, political leaders and conservative groups appears to have been enhanced at the expense, however, of his prestige with middle class and labor elements. Although the students, led by communist agitators, acted illegally, the fact remains a number were killed, and in the Ambassador's estimation this will not be forgotten and may well lead to repercussions which could seriously undermine the Castillo regime's stability.

On June 28 the Ambassador expressed to Castillo serious concern and apprehension over developments.[2] He stressed to him the importance of publicizing, with supporting evidence, the events as part of a communist plot, and a USIA instruction along these lines has already been sent to our Latin American missions. The student organization in Guatemala City has issued a manifesto recommending peaceful solution of the situation but lamenting the Government's police action and ensuing casualties without condemning participation of agitators. The Government had hoped this manifesto would be worded in such a way to help a reconciliation between the Government and the students, but its tone and lack of condemnation of the agitators appears to have made eventual reconciliation more difficult. Meanwhile, some demonstrators have been exiled, and more than one hundred are still being detained in Guatemala.

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[1] Source: Department of State, Central Files, 714.00/6–2956. Secret. A handwritten notation on the source text indicates that the Under Secretary saw this memorandum.

[2] In telegram 370 from Guatemala City, June 28, Sparks reported on his conversation that day with President Castillo. The telegram reads in part: "President commented Army was completely in accord with and supporting his policy of firmness and he had received thousands of telegrams of adherence." (*Ibid.,* 714.00/6–2856)

President Castillo now appears committed to a policy of stronger action against opposition elements, in contrast to his former moderate position to which the Ambassador considers it will be most difficult for him to return. His communist and other enemies may be expected to take full advantage of this situation to the probable detriment of his prestige with the Guatemalan people.

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47. Memorandum of a Conversation, Department of State, Washington, June 29, 1956[1]

SUBJECT

Guatemala: Current Political Situation

PARTICIPANTS

Col. Jose Luis Cruz Salazar—Ambassador of Guatemala
ARA—Assistant Secretary Holland
MID—Bayard King—Guatemalan Desk

The Ambassador said he felt it his duty to tell Mr. Holland of the recent events in Guatemala. He stated that the government had heard of communist-inspired plans to stage an anti-government demonstration of students on June 25th and had taken the step of declaring a state of emergency, as provided by law, and had forbidden the demonstration. The Ambassador's account of the events were much the same as we have received from the Embassy in Guatemala, except that he stated the police were fired on first and that deaths were two on the side of the demonstrators and one among the police. He said that the Army completely supported President Castillo, and that calm has now returned, though a "State of Siege" is still in effect. He lamented the fact that deaths were caused by communist plotting. He said that of those exiled only one, Balcarcel, was a student.

Mr. Holland expressed the belief that the communists had incited the Guatemalan demonstrators as part of a pattern to cause similar unrest all over the hemisphere. He said it was probable that the events in Guatemala, Mexico, Peru and elsewhere, timed as they were just before the meeting of Pan-American Presidents,[2] were part of a general communist conspiracy to sabotage this meeting.

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[1] Source: Department of State, Central Files, 714.00/6–2956. Confidential. Drafted by King and approved by Holland.

[2] See vol. VI, Documents 112 ff.

He said it was an old communist trick to stir up trouble in which innocent people were killed and then claim the dead as communist martyrs, while the actual instigators of disorder were always careful to stay out of danger. He said the fact some lost their lives remained in Guatemala and suggested that President Castillo take prompt steps to nullify anticipated communist propaganda claiming martyrs of their own. He suggested the government might wish to make its position clear to the people—that it is a constitutional government whose duty it is to uphold law and order and that in this case because of Moscow-directed agitators some innocent people were killed. He suggested the citizenry be told they could make their views known to the authorities at any time, but in a lawful manner and not in illegal mass demonstrations. He said that the government should try to convince the people that those killed were not communist martyrs but actually martyrs of the people who had been duped by communism. Mr. Holland also suggested that in dealing with demonstrators tear gas was effective and infinitely preferable to bullets.

Mr. Holland said that without wishing to intervene in the internal matters of Guatemala he felt he could speak frankly to friends. The Ambassador agreed. Mr. Holland suggested that President Castillo should immediately make a public speech along the lines suggested above, possibly at the time of the 2nd Anniversary of the Liberation early next week. Mr. Holland emphasized that the President should not delay making this speech, as the longer the delay the less effect it would have and would give the communists more time to start disseminating their own propaganda against the government. He suggested the speech should be a sober, serious one, possibly including a minute or two of silence in memory of those who lost their lives, and he felt that such a declaration by the President would make a lasting impression on the people of Guatemala and convince them that those who died did so not because of government tyranny but because of cynical communist political maneuverings. The Ambassador said he was very grateful to Mr. Holland for his suggestions and that he would immediately write to inform President Castillo of them.

48. Memorandum of a Conversation, Panama City, July 23, 1956[1]

SUBJECT

Conditions in Guatemala

PARTICIPANTS

President Castillo of Guatemala
Assistant Secretary Henry F. Holland
Mr. Jack D. Neal (MID)

President Castillo made more or less the following remarks:

He had, in response to my whispered suggestion at the general meeting, omitted a substantial part of his printed speech in order to save time. He directed my attention to a particular paragraph in the printed version of the speech, one to which he attributed particular importance. He regretted having failed to read it and wanted me to see it. It was one emphasizing the need for cooperation between the different governments in the control of communism.

He then went on to say that the communists in Guatemala were doing their best to force him into the position of a "government of force". He was determined that he would not adopt that role and that somehow he would manage to control the government and maintain stability, but without adopting the role of a dictator. I congratulated him as warmly as I could and told him that the objective of the communist party was to drive a wedge between him and his people. If they could persuade his people that he had become a dictator, then the breach would be opened. He said that he fully realized this and was determined that this would not happen.

He then presented to me a memorandum[2] recommending the creation of a Central American merchant marine fleet and asked that we review it. I agreed that we would and that we would give him our views through his Ambassador in Washington.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Guatemala. Secret. Drafted by Holland in Washington on August 20.

[2] Not found in Department of State files.

49. Memorandum of a Conversation, Department of State, Washington, August 29, 1956[1]

SUBJECT

Guatemala: Electric Power Situation

PARTICIPANTS

Ambassador Cruz Salazar of Guatemala
ARA—Assistant Secretary Holland
MID—Mr. Bayard King

The Ambassador mentioned that he had talked to President Castillo on the telephone last night and that he was planning to go to Guatemala on September 7 in order to discuss with the President problems of mutual interest to the two countries. Mr. Holland said he hoped the Ambassador would take that opportunity to tell the President of our continuing concern and interest in the electric power problem in Guatemala. Mr. Holland said that as the Ambassador knew, Guatemala was suffering from a critical power shortage which was retarding the economic development of the country. He described the Empresa Electrica's offer to supply interim power expansion pending the construction of the permanent hydro-electric plant at Jurun-Marinala. He said the Department had been informed that on August 28 President Castillo, at a press conference, had announced that within a few days the government would be ready to discuss with the Empresa the furnishing of this interim power, and he was happy to note that progress seemed to have been made in this respect.

Mr. Holland said that in addition to the furnishing of additional interim power, we were deeply interested in the basic problem of the construction of the Marinala plant. He said we strongly believed this plant should be built by private enterprise and not by government financing. It would, in his belief, be a mistake for the Guatemalan government to use its scarce resources for a project of this nature when private capital was available. The money which any government financing of the Marinala plant would require could better be used for other projects which would bring a higher standard of living for the people of Guatemala. He said also that if agreement were reached on the construction of Marinala by private enterprise, it could well encourage many potential foreign investors to invest in Guatemala. Mr. Holland said he appreciated this decision presented a political problem for the Guatemalan government, and that we were not favoring any particular private enterprise group.

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[1] Source: Department of State, Central Files, 814.2614/8–2956. Confidential. Drafted by King and initialed by Holland indicating his approval. In a memorandum to Holland, August 29, Neal suggested that the Assistant Secretary discuss the following with Ambassador Cruz: "It is our strong conviction that the Marinala plant should be built by private enterprise capital, which is available, instead of the Guatemalan Government using its scarce resources to finance this construction." (*Ibid.*)

Ambassador Cruz said he would be glad to transmit the views of Mr. Holland to President Castillo. He said he himself was considerably more optimistic now about eventual agreement being reached on the construction of Marinala than he had been 6 months ago. He said the political problem facing the Guatemalan government was largely the result of the unpopularity of the Empresa Electrica. A steady stream of anti-Yankee propaganda had been directed against the major American companies in Guatemala during previous regimes, and although these companies had, to varying degrees, improved their public relations, this propaganda was still effective among the Guatemalan people. He intimated the government is doing all it can to arrive at agreement for construction of additional power-generating facilities and that various technical studies are now being made. He said one of the problems in dealing with the Empresa Electrica was that its managers had had what he termed "a 1920 attitude in 1956." In general, however, he was optimistic over eventual solution of the electric power situation.

Mr. Holland said he appreciated the fact that in the past some of the policies of the American companies in Guatemala may have been short-sighted. However, he had met and talked with Mr. Henry Sargent, President of American and Foreign Power, and Mr. Sargent had impressed him as a man who had "1956 and not 1920 ideas." He reiterated our deep interest in the electric power problem and our belief that the solution was a responsibility of private enterprise.

50. Letter From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in Guatemala (Sparks)[1]

Washington, November 27, 1956.

DEAR EDDIE: I have your letter of October 23, 1956,[2] supporting the need for further grant aid to Guatemala in FY–1958. Both your letter and Toica A–304[3] have received careful consideration in the Department as well as in ICA.

The Department considers that the economic situation in Guatemala and Guatemala's potential borrowing capacity are sufficiently good, compared with other areas of Latin America, that we would not be justified in requesting under present circumstances further emergency aid for next fiscal year. You will recall that the E area of the Department, even when funds for FY–1957 were being studied, considered that there was no *economic* justification for our asking as much as $10 million in grant aid, but did not oppose this sum because of the political considerations involved. In addition, we do not see how we can request additional grant aid funds for FY–1958 in view of National Security Council policy (see paragraph 24 of NSC 5613/1 of September 25, 1956[4]).

I appreciate the danger you mentioned in your letter of our not achieving our objectives should the Guatemalan people not be convinced, before Castillo's term of office ends, that they are enjoying a better life. However, I believe we have fully met our commitment to help Guatemala through its emergency. I do not see how we can justifiably ask for more defense support funds now in view of the relatively optimistic economic picture in Guatemala and the substantial aid already provided though still largely unspent. If in the future events indicate that the Guatemalan Government is facing a grave emergency, we can always reconsider our position.

We understand that ICA proposes to mention, in the forthcoming FY–1958 MSP budget presentation, that the Embassy and the

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[1] Source: Department of State, ARA Deputy Assistant Secretary's Files: Lot 58 D 691, Guatemala. Secret; Official–Informal.

[2] Not printed. In this letter, Sparks wrote in part that "world opinion believes that the United States was responsible for the overthrow of the Arbenz regime. We can deny this charge, but the fact remains that we were publicly delighted with the change and that people, and the United States press in general, think that we have a special responsibility for the success of the new government. Entirely apart from the danger that failure to achieve our objectives here might spell a return of communism, is the enormous loss of prestige here and abroad which such failure would entail for the United States." (*Ibid.*)

[3] Not printed.

[4] See vol. VI, Document 16.

USOM believe there will be need for further grant assistance to Guatemala which State and ICA do not support at this time. Should this possible need develop it would constitute a requirement to be met from the world wide Mutual Security Program contingency fund.

Sincerely,

R.R. Rubottom, Jr.[5]

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[5] Printed from a copy which bears this typed signature.

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51. Memorandum by the Officer in Charge of Guatemalan Affairs (King)[1]

Washington, March 13, 1957.

GUATEMALA

There has been a record of positive accomplishment during the past 2½ years in Guatemala. Since June 1954 the only communist-dominated government in the Hemisphere has been replaced by the pro-U.S. Castillo Armas Government with which we have close and friendly relations. We are no longer faced with the menace to our security of the existence of a communist regime in Middle America, and international communism does not now present a direct threat to Guatemala. The Castillo Armas government has, for a Latin American state, pursued relatively moderate policies and we believe that although it has had to devote a disproportionate amount of effort to dealing with the political and economic problems it inherited, it has grown in strength and stability. We consider it vital that the government be able to demonstrate to the people of Guatemala that they can have a better life under democracy than under communism, and this has been one of our major policy objectives in furnishing aid to Guatemala.

The economic picture in Guatemala is currently favorable. The currency has for many years been at par with the U.S. dollar and Guatemala enjoys a favorable balance of trade with the United States. In spite of large expenditures for economic and social development projects (highways, agrarian reform, health and sanitation, agricultural development) the internal and external debts have not increased unmanageably, and as confidence in the Castillo government has increased, so has the flow of private investment. Although over-dependence on coffee remains a basic weakness of the economy, diversification of agricultural production, establishment of new industries, mounting production of lead and zinc mines, and above all, the fact that 22 companies, mostly American, have been authorized to explore for petroleum, are optimistic signs for the future.

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[1] Source: Department of State, Guatemala Files: Lot 60 D 647, Economics. Confidential.

U.S. Aid

Since FY 1955, the United States has appropriated $36 million dollars in grant aid and $5.6 million dollars in technical assistance for Guatemala. Most of the grant or defense support aid has gone into highway construction which Guatemala needs and which has incidentally eliminated the severe unemployment existing at the time the Castillo government came to power. U.S. grant aid has also gone into rural resettlement, agricultural development, and health and sanitation. We believe that Guatemala's present economic position, in comparison with other Latin American countries, is sufficiently good that she can do without U.S. grant aid in FY 1958. In view of this and in accordance with NSC policy, neither the Department nor ICA has asked for grant aid in the current budget. However, the Guatemalans disagree with us and have told us that they need $10 million dollars in grant aid in FY 1958.[2]

United States Companies

United States investment in Guatemala is currently estimated at $140 million the bulk of which is represented by the holdings of the United Fruit Company, the International Railways of Central America (United Fruit controlled), and the power producing and distributing subsidiary of the American and Foreign Power Company. Relations between the government and United Fruit are now satisfactory but relations with the power company remain a problem. Additional power generating facilities are urgently needed but the company and the government during the past 2 years have failed to reach agreement on terms for new construction although the lack of power is severely hindering expansion of industry. We have frequently urged the Guatemalan Government to reach agreement with a private enterprise group for construction of the needed additional facilities, and have also on numerous occasions suggested to American and Foreign Power that it do all it can to reach agreement with the government. Progress has, unfortunately, been impeded by the dislike of American and Foreign Power in Guatemala and the company's poor tactics and inflexibility on a number of issues under negotiation.

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[2] In a memorandum of March 21 to Acting Assistant Secretary Rubottom, C. Allen Stewart reported that Ambassador Cruz stated that the Government of Guatemala planned to present a request for $10 million in defense support aid for fiscal year 1958. In a letter of March 21, King informed Ambassador Sparks of the Guatemalans' planned aid request. (*Ibid.*, ICA–Grant Aid)

British Honduras

Guatemala has an ancient though questionable claim to the colony of British Honduras. This claim has become a matter of national pride with the Guatemalans and it can be said to be probably the only issue on which they are all in agreement. We have always told the Guatemalans, who have frequently asked us to intervene on their behalf with the British, that this claim should be settled through diplomatic negotiations or by an international judicial body. In November 1956, the Department was informed that the Guatemalans were contemplating an armed invasion of British Honduras. Both here and in Guatemala we made the strongest representations to them against such a move, and we believe that our representations resulted in their abandoning, at least for the time being, any plans for armed action they may have had.

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52. Memorandum of a Conversation, Department of State, Washington, April 2, 1957[1]

SUBJECT

Guatemala: Guatemalan Request for Further Defense Support Aid

PARTICIPANTS

Colonel Jose Luis Cruz Salazar, Guatemalan Ambassador
ARA—Acting Assistant Secretary, R.R. Rubottom, Jr.
MID—Mr. Bayard King, Guatemala Desk Officer

The Ambassador handed Mr. Rubottom a note which he said was an official request of the Guatemalan Government for further defense support aid funds for the fiscal year 1958. He said that a similar note was being delivered, at the same hour, to Ambassador

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[1] Source: Department of State, Guatemala Files: Lot 60 D 647, ICA-Grant Aid. Official Use Only. Drafted by King.

Sparks by the Foreign Office in Guatemala.[2] He said he hoped that this request would receive sympathetic consideration by the United States Government. [*Comment:* In an earlier informal conversation with an officer of the Department, the Ambassador indicated that the Guatemalan Government considered it would need a final $15 million in additional grant aid funds from the U.S. before essential development programs in Guatemala were completed.][3]

In accepting the note, Mr. Rubottom said the Guatemalan request would receive the careful consideration of the Department. There were, however, he said, three important factors to be borne in mind in any consideration of further defense support aid for Guatemala: 1) the level of Guatemala's actual needs; 2) the needs for aid in other countries of the hemisphere; and 3) the attitude of the U.S. Congress which appropriates the funds for foreign aid. He mentioned the current drive to reduce the United States budget, and commented that it was the view in some quarters that such a reduction could be achieved by cutting foreign aid.

The Ambassador said that the year 1957 was a crucial one for the Guatemalan Government and that the programs now underway in Guatemala, such as highway construction, land reform, and agricultural development, as well as other programs envisaged, could with the requested additional grant aid bring real benefits to the Guatemalan people. He said that the realization of the aspirations of the Guatemalan people for a better life could be brought about by these programs, and that Guatemala could show the rest of the hemisphere that progress could be achieved in a country without having an extremist government. He remarked that he thought the U.S. Government and Congress were pleased with the way the aid money had been spent, and with the way Guatemala had, during the past two and a half years, "pulled herself up from nothing."

Mr. Rubottom agreed that U.S. aid money had been constructively spent in Guatemala. However, he hoped that the Guatemalan Government realized that it could also obtain funds for economic development through loans from such organizations as the IBRD and the Export-Import Bank. The Ambassador said that while he realized loans on favorable terms could be obtained, accepting any further foreign loans presented a grave political problem for the Guatemalan Government. He said the contracting of these obligations by the Government made a very poor impression on the Guatemalan people and aroused their resentment against the government.

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[2] In a letter to King, April 5, Sparks wrote that on April 2, Guatemalan Foreign Minister Jorge Skinner Klée presented a note requesting grant aid for fiscal year 1958. Sparks stated further that he discussed the note with President Castillo on April 3. (*Ibid.*)

[3] Brackets in the source text.

53. Memorandum From the Deputy Director of the Office of Middle American Affairs (Stewart) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, April 9, 1957.

SUBJECT

Guatemala: Grant Economic Aid for Guatemala in FY–1958

Problem

The current NSC policy paper[2] for Latin America provides that grant economic assistance may be furnished to countries in the area to meet conditions of temporary emergency affecting U.S. interests which the local government cannot solve with the resources at its command. The paper further provides that beneficiaries of such aid should be encouraged to relinquish it and to become self-reliant as soon as it is practical to do so. The immediate and most serious aspects of the emergency confronting the Castillo Armas government when it came to power in 1954 can now be considered to have ended. The Department and ICA/W have therefore maintained up to now the policy that further U.S. grant aid to Guatemala, beyond the $36 million authorized through FY–1957, is not justified. It was planned to make no request for any further aid of this kind for Guatemala in the FY–1958 MSP bill.

However, the Embassy and the USOM in Guatemala consider that further grant aid is needed if U.S. objectives are to be realized. Recent reports by study groups sent to Guatemala by the U.S. Congress have praised the progress U.S. aid programs have made possible there, and have in effect endorsed additional grant economic assistance for Guatemala. Furthermore, members of the House Foreign Affairs Committee have informally indicated they intend to earmark $12 million in grant aid for Guatemala in FY–1958 in spite of the position of the Executive Branch. The Department is thus faced with the likelihood of substantial aid for Guatemala being made available next fiscal year. Most recently, the Guatemalans have officially requested $15 million in such aid, chiefly on the basis that it would prevent a return to communism in Guatemala.

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[1] Source: Department of State, Guatemala Files: Lot 60 D 647, ICA–Grant Aid. Secret.

[2] NSC 5613/1; see vol. VI, Document 16.

Discussion

The U.S. objectives in Guatemala may be summarized as follows: 1) support the anti-communist government; 2) promote political stability by means of programs to accelerate development, realizable economic well-being and a higher standard of living generally; and 3) provide positive, visual proof that life in Guatemala under a democratic government is preferable to life under a communist-dominated government. During the past two and a half years, in spite of conscientious effort by the Guatemalans and the substantial U.S. aid, the Castillo government has so far achieved only partial success in visibly bettering the lot of the average Guatemalan.

It is difficult, if not impossible, to justify further grant aid to Guatemala on economic grounds. Economic conditions are currently good, in comparison with some other areas of Latin America, and Guatemala enjoys a favorable credit rating with lending institutions that could provide funds for long-term economic development. However, the Embassy and USOM consider that in FY–1958 Guatemala will approach its safe borrowing limit and yet will find itself short of funds required to carry on essential programs in the fields of communication, agricultural production, education and health.

Politically, further grant aid can be justified, taking into consideration our objectives and the constructive manner in which the assistance so far provided has been used. The development programs begun with U.S. aid are not finished and the benefits it is envisaged they will provide have not yet become apparent to the Guatemalan people. It is possible that terminating our grant aid this fiscal year might endanger the stability of the Castillo Armas Government were serious financial problems to develop which might prevent completion of some of these programs or make impossible initiation of others. The Guatemalans maintain they have a tradition of "no foreign loans", and that the contracting abroad of further obligations beyond the current $18.2 million IBRD loan would arouse popular resentment and pose a serious internal political problem for the regime.

Some U.S. observers have maintained that we have a moral commitment to the Castillo Government to continue assistance until essential development programs are completed. Certainly it is in line with our objectives in Guatemala to do all we can to assure the success of the Castillo Government, to minimize the possibility of any return to communism, and to protect ourselves from charges that should the latter occur it did so because we failed to continue economic aid. If we are to be realistic, we must appreciate the fact that Guatemala's record as the only country in the world so far to have rid itself of a communist-dominated regime weighs heavily with the U.S. public and Congress. If conditions appreciably worsened in Guatemala, no amount of explaining by the Department could justify our failure to provide a comparatively small amount of aid to that country while we continue to do so to countries that are at best neutrals in the Cold War. Finally, there is the incontrovertible fact that the uses to which our aid has been put, and even the meager results achieved up to now, compare favorably with some of the results our aid programs have achieved elsewhere.

There is no question that we are in a difficult position, both in view of NSC policy and of the known attitude of other hemisphere countries toward our continuing economic aid to Guatemala. However, we believe that a request for $7.5 million for FY–1958, as recommended by the Embassy and the USOM, could be justified on political grounds. We believe a sound case could be made for it on the basis that the emergency which existed in far more serious form in Guatemala has not yet been totally eliminated, and because of the necessity to give the Castillo Government every chance to create lasting conditions in Guatemala that are in line with U.S. objectives. Castillo apparently does have a good chance of being able to demonstrate that life is better under a democratic form of government than under communism, but it is not yet certain he will be able to do so. While doubt still exists, we should not risk failure of our objectives by terminating grant aid in FY–1957.

Recommendation

That ARA take the position that our objectives in Guatemala have not yet been achieved, and that for political reasons it seems desirable to continue some grant aid in FY–1958. That you authorize us to discuss, within the Department and with ICA, means of including $7.5 million in defense support aid for Guatemala in the forthcoming MSP budget presentation to Congress.

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54. Editorial Note

In a draft memorandum to Under Secretary Herter, dated April 15, Rubottom stated that the Bureau of Inter-American Affairs believed that a grant of $7.5 million to Guatemala, as recommended by the Embassy in Guatemala, was politically justified. The draft memorandum reads further: "On the question of aid for Guatemala, there is a difference of opinion between ARA and E. Representatives of E take the position that, on balance, it appears that the economic objectives of the current aid program have been accomplished, and that a continuation of grant aid to Guatemala would be difficult to defend from the standpoint of both existing U.S. policy in Latin America and the relatively strong economic position of Guatemala in comparison to other countries in the Hemisphere not receiving U.S. grant aid." (Department of State, Guatemala Files: Lot 60 D 647, ICA–Grant Aid) In a letter to Ambassador Sparks, April 29, King stated: "The Under Secretary has reached agreement with Mr. Hollister of ICA to include defense support funds for Guatemala in the FY–1958 MSP budget presentation to Congress. However, the amount to be requested for Guatemala was reduced from $7.5 million to $5 million." King stated further that the objections of the Bureau of Economic Affairs to the grant aid were overruled by Deputy Under Secretary of State for Economic Affairs C. Douglas Dillon who approved the recommendation that further grant aid for Guatemala was justified. (*Ibid.*)

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55. Memorandum of Conversations Between the Assistant Secretary of State for Inter-American Affairs (Rubottom) and President Castillo Armas, Guatemala City[1]

SUBJECT

Meetings with President Carlos Castillo Armas of Guatemala on Various Subjects[2]

During the course of four meetings with President Carlos Castillo Armas, we covered the following points:

1. *Guatemala Labor Situation*[3]—I told President Castillo that we in the United States were very much concerned with the apparent

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[1] Source: Department of State, Rubottom Files: Lot 59 D 563, Guatemala. Secret. Drafted by Rubottom on July 8.

[2] Rubottom, who became Assistant Secretary of State for Inter-American Affairs on June 19, visited six countries of Central America June 23–July 5. He was in Guatemala July 2–5.

[3] In a letter dated June 26, to Rubottom in Guatemala City, Fishburn discussed relations between the Guatemalan Government and the Consejo Sindical de Guatemala (CSG), a trade union associated with ORIT. Fishburn wrote in part: "It seems to me essential that the Embassy diplomatically indicate to both the Government and Consejo that a clash would harm both organizations and that restraint and patience

differences which had arisen between the government and the CSG. I explained that I did not want to put myself in the position of defending everything that the CSG had done, and in fact I felt that it had been quite mistaken in some of its policies, but that, nevertheless, a rupture in relations between the CSG and the government might lead to very serious consequences insofar as public opinion toward Guatemala in the United States is concerned. The President said that he fully understood that this might happen and that he hoped that it could be avoided. He never made any reference to his personal feeling against Mencos[4] nor did he refer to the criticism of his government by the CSG in its Manifesto on May 1. I suggested to the President that we should both try, he within his own government and I working with various parties concerned in the United States, to avoid a complete break and to try to bring about a better understanding. He agreed with this point of view.

I took advantage of this opening to tell the President how surprised I had been to read the language criticizing the CSG for its connection with the "imperialists" and "capitalists" ORIT, included in the government oficio released a few days before my arrival in reply to the CSG's request for personeria juridica. The President expressed surprise at this language also and said that the signer of the oficio had been discharged from his office in the Ministry of Labor.

I suggested to the President that a travel grant for certain Guatemalan labor leaders and organization members to go to the United States might be very worthwhile. He seemed to think this was a good idea. I did not allude to the turndown by his government of the three applicants for travel grants out of the CSG, but suggested that the travel grants issued might be given to members of the CSG as well as the other confederations, mentioning especially the SAMF since I understood that it had taken a turn for the better in its direction. I later mentioned to the Ambassador and to the Labor Attaché that the Embassy might be well advised to act rather quickly on this suggestion, and got the impression that they would do so.

2. *Aid from the United States*—I told the President that he should be thinking of the day, which might be very soon, when Guatemala would have to make its own way without economic grant assistance from the United States. I pointed out that more and more careful scrutiny was being given to requests for economic aid and that while there was the greatest of sympathy and even affection for Guatema-

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are necessary for both." (Department of State, Rubottom Files: Lot 59 D 573, Guatemala)

[4] Mario Mencos, Secretary-General of the CSG.

la in the United States, it appeared that Guatemala should soon be able to stand on its own feet. The President agreed with this and said that he always had it in mind, but added that he was hoping to get sufficient aid for FY 58 to enable him to make good on certain highway projects as well as some of the remainder of work to be done at the Roosevelt Hospital. I told the President that Guatemala was being considered for additional aid in FY 58, but that it seemed unlikely that she would receive anything like as much as had been officially requested ($15,000,000). He did not seem particularly surprised at this nor did he comment on it.

3. *Belice*—The President alluded briefly to the great political problem in Guatemala of obtaining its long dreamed-of territory in Belice. He said that the Foreign Minister was working on a plan but he did not go into any detail. I later discussed this in some detail with the Foreign Minister and it will be covered in a separate report.[5]

4. *Honduran Situation*—I told the President of my impressions gained in my visit to Honduras[6] and the absolute necessity that some political stability be restored to that country. I said that there seemed to be moderate optimism on the part of some of my informants there that free elections would be held, but that there was no guarantee of this in sight. He said that the restoration of stability to Honduras was the principal problem in Central America at this time. I told the President that I had taken the occasion of Villeda Morales'[7] presence in the United States to try to get acquainted with him and that the latter had made a pretty good impression here. I said that he was being given rather careful indoctrination on the dangers inherent in communism and of flirting with those who might be susceptible of communist influence. The President said that he had never thought of Villeda Morales, whom he had come to know quite well since he had lived right across the street from him in Tegucigalpa while he was in exile, as a communist, but that he had always been fearful of his friends and those whom he allowed to influence him. He spoke very highly of Mrs. Villeda Morales. He seemed to be quite interested in my comments on this subject and I went on to suggest that perhaps he, Castillo Armas, could capitalize on his previous friendship with Villeda Morales by helping him and even influencing him in the event he should reach the high office to which he aspired. I pointed out that the United States was adhering strictly to its policy of non-interven-

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[5] Not found in Department of State files.

[6] Rubottom was in Honduras July 1–2.

[7] Ramón Villeda Morales, leader of the Honduran Liberal Party, was elected President of Honduras by the National Constituent Assembly on November 15.

tion as always, but that the possibility could not be overlooked that Villeda Morales might be elected President. The President seemed to be receptive to this idea and did not indicate that he planned any drastic action to move against Villeda Morales' chances.

5. *Klein–Saks Mission*—I did not bring up this subject but the President once referred to the Klein–Saks Advisory Mission in a rather friendly way, adding that he only regretted that he was not in a position to see that more of their recommendations were carried out. I commented on the very high regard in which the Department held the Mission, and the splendid work that it was accomplishing both in Guatemala and in Chile.

6. *International Communism*—I told the President that the United States was still very much on the alert to the threat of communist penetration in Latin America, but that we were carrying on the discussions in London in good faith in the hope that some understanding might be reached to curtail the threat of a nuclear war. The President expressed his understanding of this and his hope that some agreement might be reached there.

7. *Feeling toward other Central American Chiefs of State*—President Castillo Armas expressed very friendly feelings for President Lemus of El Salvador and seemed to have rather high hopes for President Luis Somoza of Nicaragua, whom he described as "having gotten off to a good start". His only reference to President Figueres was one rather ridiculing his constant attempt to meddle in international affairs both within and outside Central America. When I mentioned to Castillo Armas that some Costa Ricans felt that all three of the presidential candidates were satisfactory and that some believed that Orlich would not be beholden to Figueres if he were elected, the President seemed rather surprised about the latter point.

8. *Arbenz*—I inquired directly of the President about the return of Arbenz to the Americas and he did not seem unduly preoccupied about it. He said that he had known Arbenz nearly all of his adult life and that they had once been roommates in a military barracks. He said Arbenz was moody, introspective, suspicious, and generally unfriendly to most people. He felt that he had been propped up by his communist supporters while acting as president of Guatemala. He said that he was quite certain that he would now be revealed in his true colors and that he constituted no threat to Guatemala or any other country.

9. *Forces of Reaction in Guatemala*—The President said that his greatest concern was the threat to democracy in Guatemala by the extreme right—the reactionary forces. He said the big land owners and wealthy businessmen had urged that he take much stronger steps in repressing those who had been in any way involved in the previous government and that he had had great difficulty in refusing

to go as far as they insisted that he go. He said that these same forces were unwilling to pay proper wages to the workers in many cases and that they seemed to be unaware of the importance of providing the workers and the Indian peasants of Guatemala a chance to improve their standard of living for themselves and future generations. The President insisted that he was still forging ahead in his effort to overcome this feeling on the part of the wealthy but that it was most difficult to accomplish.

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56. Editorial Note

President Castillo Armas was assassinated in Guatemala City on July 26, 1957. In telegram 20 from Guatemala City, July 27, Ambassador Sparks reported that the motive for the assassination was not known and that there was no evidence of a coordinated insurrection against the Castillo government. The telegram further stated that Foreign Minister Klée informed Sparks that Luis Arturo Gonzalez Lopez, First Presidential Designate, would assume that office immediately. (Department of State, Central Files, 714.11/7–2757) In a memorandum to Acting Secretary of State Herter, July 29, President Eisenhower wrote in part:

> "I assume that there is no question of 'recognition' involved in the succession of President Gonzales Lopez in the Presidency of Guatemala. This seems to be a succession that follows constitutional form so I suppose nothing is necessary. However, I do think it would be advisable to get together an early message from me to him which might emphasize the satisfaction we had in the friendship of his predecessor and the hope that the same type of feeling and the same type of government policies would continue." (Eisenhower Library, Whitman File, DDE Diary)

In a memorandum to Herter, July 30, Rubottom stated that the President was correct in his understanding that Gonzalez Lopez' succession to the presidency of Guatemala followed constitutional form. Rubottom recommended that Herter forward to the President the suggested text of a message to Acting President Gonzalez Lopez. Under cover of a memorandum dated July 30, Herter forwarded to President Eisenhower the text of the following message to Gonzalez Lopez: "As Your Excellency begins the duties of your high office, I send you best personal wishes for the success of your administration and the well-being of your people. My friendship with your late predecessor was a source of great satisfaction to me, and I look forward to the same cordial relations with you. Dwight D. Eisenhower."

A report to the President, dated July 31, by Major John S.D. Eisenhower on the funeral of President Castillo Armas on July 30, is *ibid.*, International File.

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57. Telegram From the Acting Secretary of State to the Embassy in the United Kingdom[1]

Washington, July 31, 1957—4:05 p.m.

Tosec 13. Reurtel Secto 3.[2] We have been considering possible further exploitation communist ties of Castillo assassin and USIA already disseminating factually with attribution Guatemalan statements. Also USIA has been requested collect material from foreign sources which would be helpful should we decide further publicity warranted. Believe, however, we should proceed with caution in adopting official position because Guatemalan reports concerning assassin's connections and motives not yet confirmed here and in fact viewed with some skepticism. Possibility cannot be overlooked that assassination was rightist plot.

Herter

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[1] Source: Department of State, Central Files, 714.11/7–3157. Secret. Drafted by Hoyt.

[2] Not printed.

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58. Editorial Note

Minutes of a meeting of the Intelligence Advisory Committee (IAC) on July 30 indicate that the following discussion of the situation in Guatemala occurred:

"Mr. [Allen] Dulles indicated that despite the spate of cables, he was still unclear as to exactly what had taken place. He noted that the assassin had a known record as a Communist and had been dishonorably discharged from the Army. He stated, however, that it was strange for him to have in his possession incriminating documents if he had planned the assassination, and also noted that some question had been raised about the feasibility of his shooting himself with his own rifle. Mr. Dulles continued further by noting the extraordinary readiness of the Guatemalan Government to handle the situation, . . . Mr. Dulles stated that there was some feeling that this action had been the trigger for a rightist coup. Mr. [Hugh] Cumming pointed out that State also had certain reservations about the story as explained by the Government. He noted that it is not usual for organized Communists to go in for assassination unless the specific gain will counter the adverse reaction. He also noted the Communists usually do not leave such a recognizable record as in this case.

"The Chairman suggested, in view of the alerting difficulties experienced in connection with the news of the President's assassination, that each agency look carefully into its present alerting mechanism." (Department of State, INR Files: Lot 58 D 776)

The Intelligence Advisory Committee was created in 1947 to serve as a coordinating body in establishing intelligence requirements among the intelligence staffs of the Departments of State, the Army, the Navy, the Air Force, the Atomic Energy Commission, and the Joint Staff. The IAC consisted of the heads of these intelligence staffs and was chaired by the Director of Central Intelligence.

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59. Memorandum of Discussion at the 333d Meeting of the National Security Council, Washington, August 1, 1957[1]

Present at the 333rd Council meeting were the President of the United States; the Vice President of the United States; the Acting Secretary of State; the Secretary of Defense; the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Acting Attorney General (participating in Items 2, 3, 4 and 5); Mr. Frederick Mueller for the Secretary of Commerce (for Item 1); the Director, Bureau of the Budget; the Chairman, Atomic Energy Commission (participating in Items 2, 3, 4 and 5); the Federal Civil Defense Administrator (participating in Items 1, 2, 3, 4 and 5); the Acting Director, U.S. Information Agency; the Director, International Cooperation Administration; Assistant Secretary of State Bowie; Assistant Secretary of Defense Sprague; Mr. William M. Holaday, Assistant to the Secretary of Defense; the Deputy Director, Bureau of the Budget; Mr. Ralph Spear, Federal Civil Defense Administration; the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; The Assistant to the President; the Deputy Assistant to the President; Special Assistants to the President Cutler and Dearborn; the Acting White House Staff Secretary; the Executive Secretary, NSC; and the Director, NSC Secretariat.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Boggs on August 2.

[Here follows discussion of agenda item 1. "Definition of the Term 'Mobilization Base.' "]

2. Significant World Developments Affecting U.S. Security

The Director of Central Intelligence said difficulties might arise in Guatemala as a result of the assassination of President Armas. The Defense Minister[2] was in virtual control of the country at present, even though nominally the Constituent Assembly was in charge. The Defense Minister had been characterized as having a good heart but no guts. He would probably be a good candidate for the Presidency in the elections to be held a few months hence, although he was technically barred by a law requiring candidates to be out of the government for six months preceding the election.

Mr. Dulles said the full story of the assassination had not yet been revealed. The Communist infiltration into the President's guard was the result of incredible negligence. The United States had a record of the man alleged to have fired the shot, indicating that he was a Communist. The United States, of course, did not know that he was in the President's guard until the assassination occurred. The assassination was kept secret for twelve hours by a news blackout established so quickly that it must have been planned in advance. All witnesses to the assassination are now under house arrest or are unapproachable, and the country is in a state of siege.

Mr. Dulles felt that a genuine Communist coup would not have been handled in this way. The old Communist gang in Guatemala appeared to be pleased but surprised by the assassination. Mr. Dulles thought it would be wise for U.S. officials to be cautious in their comments on the assassination until its true history was revealed. He added that it was quite likely that the transfer of authority to a new President would be accomplished in a peaceful manner after the elections.

[Here follows further discussion.]

Marion W. Boggs

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[2] Colonel Juan Francisco Oliva.

60. Editorial Note

According to notes of the Secretary's Staff meeting of August 7, Snow discussed the situation in Guatemala as follows:

"Mr. Snow summarized the information (Guatemala 43) on the Communist background of the assassin but pointed out that there is not yet demonstrated a link with the Communist movement and therefore it is difficult for USIA to play up the Communist affiliation with the assassin. The Secretary took strong exception to this, finding that the fact that the assassin was himself a Communist should permit an emphasis on the Communist connection especially because Communists have a fundamental motivation which leads them to violent revolution; he did not think that a direct tie to Moscow had to be demonstrated in order to show the Communist connection.

"*Action:* Asked ARA, in coordination with P, to continue to exploit as fully as possible in our publicity the Communist implication in the assassination of the President of Guatemala." (Department of State, Secretary's Staff Meetings: Lot 63 D 75)

Reference in first line is to telegram 43 from Guatemala City, August 5. (*Ibid.,* Central Files, 714.11/8–557) In a memorandum dated August 8, Hoyt informed Snow of several reports on the situation in Guatemala. According to the memorandum, a small group, possibly confined to the Presidential palace, was involved in the assassination of Castillo Armas. The memorandum stated further: "Since these persons are not as yet known, the assassination cannot be identified as a leftist or rightist plot." (*Ibid.,* ARA Special Assistant's Files: Lot 59 D 376, Guatemala 1957)

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61. Editorial Note

The Guatemalan Presidential elections held on October 20 resulted in a plurality for Ortiz Passarelli, the candidate of the Movimiento Democrático Nacionalista (National Democratic Movement). Rioting in Guatemala City by supporters of General Miguel Ydigoras Fuentes, the runner-up, led to the proclamation of a state of siege by the provisional government on October 23. The following day, the Army announced that the provisional government of President Gonzalez Lopez had been replaced by a three-man military junta headed by Colonel Oscar Mendoza Azurdia. On October 26, the military junta issued a decree invalidating the elections of

October 20. The Second Vice President, Guillermo Flores Avendano, was sworn in as Provisional President of Guatemala on October 27. Documentation on these events is in Department of State, Central Files, 714.11 and 714.02.

At the Secretary's Staff meeting on October 28, Rubottom reported on the situation in Guatemala as follows: "Rubottom indicated that we probably will need to decide whether recognition is needed for the new government. In response to the Secretary's question he said that the President-elect still claims that the election was honest. Rubottom also said that, with the Ambassador's concurrence, two US military attachés met with the Junta and were successful in bringing about the collaboration of the Junta with the General [Ydigoras] who had been causing considerable trouble and thus violence had been averted. He indicated that he thought the Commies had not gained and that there was a reasonable chance of an orderly government emerging." (*Ibid.*, Secretary's Staff Meetings: Lot 63 D 75) Presidential elections were scheduled for January 19, 1958.

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62. Telegram From the Secretary of State to the Embassy in Guatemala[1]

Washington, November 8, 1957—12:34 p.m.

239. For Sparks from Rubottom. We increasingly concerned reports return certain Guatemalan exiles and their activity and potential in current political situation. Therefore feel strongly we should comply request Ministry Government that you assist identifying communists and undesirable political exiles who might be able influence political situation in a way favorable to communists.

Although you naturally will wish make reply through Ministry Government, you should not hesitate if deemed feasible and advisable also approach President, Foreign Minister and influential Army officials order assure dangerous exile activity eliminated. As I know you appreciate, there is too much at stake for Guatemala's own future and its relations with US for us hesitate to give our assistance and friendly advice concerning these exiles who will one way or another promote communist interests.

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[1] Source: Department of State, Central Files, 714.00/11–857. Secret.

In addition preventing entrance undesirable exiles, important GOG adopt firm attitude toward expulsion or firm control those who have already returned. Leniency respect these undesirables will only encourage others attempt get back into Guatemala and into present political picture. Government empowered under Transitory Article 6 prevent return these individuals which can only be prejudicial Guatemala's own best interests. If PR[2] really interested in cleansing its ranks, its leaders conceivably would wish also prevent return these exiles. Should you encounter resistance or complacency from Guatemalan officials on taking effective action against these undesirables, Department wishes be promptly informed with indication as to sources such resistance or complacency.[3]

Dulles

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[2] Partido Revolucionario, a party of the moderate left.

[3] According to the memorandum of discussion at the 346th meeting of the National Security Council, November 25, Allen Dulles presented the following report on the situation in Guatemala: "Mr. Dulles alluded next to the very confused situation in Guatemala. A new election has been ordered for mid-January and Communist supporters of former President Arbenz are now sneaking back into Guatemala. Both the Right and the Left were well organized and the Center group on which we pinned our hopes was somewhat disorganized. Thus we are facing a situation where if this election goes wrong, we might well have a repetition of our previous troubles in Guatemala. The problem needed most careful watching." (Eisenhower Library, Whitman File, NSC Records)

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63. Telegram From the Secretary of State to the Embassy in Guatemala[1]

Washington, November 26, 1957—4:51 p.m.

275. For Ambassador from Rubottom. Department still seriously concerned over political vacuum existing between extreme right and extreme left in Guatemala. It is apparent that most thinking Guatemalans, including Army, recognize necessity of filling this vacuum with best possible candidate who can solidify center political groups and bulk of Army in upcoming elections. If these moderate sectors can agree on a candidate, there may be good chance of pulling substantial vote from right and from moderates of left to help achieve victory for staunch anti-Communist who will still have

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[1] Source: Department of State, Central Files, 714.00/11–2657. Secret.

popular appeal and will undertake program to help all classes of Guatemalans.[2]

While U.S. must, of course, avoid any kind of intervention in Guatemalan internal affairs, believe you and Embassy can play important constructive role at this vital juncture. Leaders of various central political groups, Army Officers, business leaders, newspaper directors and writers, education administrators, and even key leaders in church hierarchy have, it is noted, customarily sought out Ambassador and Embassy staff members to discuss Guatemalan political problems. You should take advantage of these opportunities in future discussions to impress upon them the serious problem which is now posed for Guatemala by return of certain key extreme leftist and communist leaders who threaten to reinstall a vulnerable ostensibly Liberal Government which will then proceed through same insidious cycle as turned country over to communists during Arevalo-Arbenz period. Explanation of these conditions should make crystal clear to Guatemalan leaders from all above sectors urgent necessity their independently deciding rally around a suitable candidate acceptable to all. This is responsibility of Guatemalan people to themselves and to their country and unless quickly assumed their country faces threat of utter ruin.

You need not hesitate make clear as you already have to Flores Avendaño that continuation of economic aid to Guatemala depends on emergence of solidly anti-communist government from elections. US public and US Congress simply would not tolerate supporting a government tainted with communism.

Dulles

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[2] Notes of the Secretary's Staff meeting, November 29, indicate that Rubottom reported on the Guatemalan situation as follows: "Following Mr. Rubottom's comment that the Honduran Government appeared to be somewhat more stable, the Secretary inquired whether there was anything new regarding Guatemala. Mr. Rubottom responded in the negative and reported that it was anticipated that the government party would win in some forthcoming regional elections. He said there was no coalescing as yet around a PR candidate for the January elections and that this hindered our ability to move effectively at this time." (*Ibid.*, Secretary's Staff Meetings: Lot 63 D 75)

64. Telegram From the Secretary of State to the Embassy in Guatemala[1]

Washington, December 6, 1957—10 p.m.

298. For Ambassador from Secretary. Continued reports of return of communist, pro-communist and other undesirable exiles are now causing considerable apprehension in the United States, as evidenced by *New York Times* editorial December 4[2] and comments to Department of American businessmen and other persons interested in Latin America. In view these developments you should seek audience immediately with President Flores and emphasize to him my own concern over communist threat and potential which return of these undesirable elements presents for Guatemala.

You should reiterate points included Deptel 254.[3] In addition you may state that we have reliable reports indicating that large sums of money are being furnished these exiles from communist sources in Mexico and possibly directly from Moscow. It is already evident that the freedom accorded these exiles by the provisional Government has allowed increase in communist activity and in political activity which cannot help but result in benefit for communists. Fact that elements such as Arbenz leader Guillermo Toriello, whose pro-communist activities and fight against anti-communist resolution at Caracas are so well known throughout hemisphere, should be allowed return to reside and operate openly in Guatemala City at this time, can only damage Guatemala's prestige abroad and weaken faith in status as an anti-communist stronghold.

Emphasize to President that this increased threat of communist infiltration which appears be growing daily in Guatemala is being watched closely by Guatemala's friends and by entire free world. There is no room for complacency. In addition if Guatemala hopes regain favorable climate for investment, it must, in its own interests, make sure that it provides ample evidence of its ability fully to control communists and prevent any taint of communism within its government.

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[1] Source: Department of State, Central Files, 714.00/12–657. Secret. Approved by Secretary Dulles. Assistant Secretary Rubottom forwarded a draft of this telegram to the Secretary for his signature under cover of a memorandum dated December 5. Rubottom stated in part: "I feel that a personal message from you is warranted because of the seriousness of the situation and because of the fact that the Government has not seen fit to act on our previous approach. I believe a message from you to the President would have a salutary effect." (*Ibid.*, 714.00/12–557)

[2] The editorial was entitled "Guatemalan Crisis", *New York Times*, December 4, 1957, p. 38.

[3] Not printed. (Department of State, Central Files, 714.5–MSP/11–1457)

I am informed the Embassy has cooperated with the Guatemalan Government by indicating some 500 undesirables on a list of exiles which Guatemalan Government has presented. Yet, reports indicate that a number of those on that list have already returned either clandestinely or openly and that Flores Government has not taken action against them.

I cannot fail to express my concern over this dangerous situation. I would appreciate receiving your comments as to reaction of President Flores.

Dulles

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65. Telegram From the Secretary of State to the Embassy in Guatemala[1]

Washington, December 12, 1957—6:46 p.m.

307. Embtel 231.[2] Department considers President Flores' speech concerning ability and intent GOG control communism not convincing nor in accord with actions his Government so far. Rapid buildup PR with known communist support is most important factor in present grave political situation. Flores' statements in speech and to Ambassador clearly indicate lack of understanding of communist threat and tactics and even raise question of his possible involvement with PR, Mendez Montenegro and leftist groups. This further heightened by presence his Cabinet known leftist Ministers Gobernacion, Education and Labor[3] and by attitude with respect IRCA strike.

In view foregoing and evident increased strength PR (Embtel 233[4]), following is set forth for Embassy guidance. Department considers election of Mario Mendez Montenegro and PR would be most undesirable of possible eventualities now in prospect, and that this would prove in long run most harmful to Guatemala's interests, US interests in Guatemala and US-Guatemalan relations.

. . . Mendez has been known as opponent of US companies in Guatemala and of GOG agreements with US companies. Department believes that troubles of US companies would multiply under regime headed by him, and believes this already indicated by PR backing of strike and intervening of IRCA.

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[1] Source: Department of State, Central Files, 714.00/12–1257. Secret.

[2] In telegram 231 from Guatemala City, December 11, the Embassy reported on Flores' radio address to the nation. (*Ibid.*, 714.00/12–1157)

[3] Edmundo Quiñonez, Julio Bonilla, and Carlos Enrique Peralta, respectively.

[4] Not printed.

Further, though present PR leaders profess anti-communism and are apparently considered too moderate by PGT and communist leadership it does have within its cadres a number of Arbenzistas who actively working behalf PR candidate. Fact is that no steps have been taken to purge PR of communists. PGT is known to be supporting PR, and to be making every effort to increase infiltration and influence among groups affiliated with PR, and to have plans replace many present PR leaders with persons sympathetic PGT. . . . Department believes that Mendez if elected could never succeed in maintaining for long position of anti-communist left which would be most vulnerable to repetition of left's gradual domination by communism as under Arevalo and Arbenz.

Dulles

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66. Memorandum of a Conversation, Guatemala City, December 28, 1957[1]

PARTICIPANTS

President Flores Avendaño
Ambassador Sparks
Mr. Vebber

I called on President Flores after talking with the Foreign Minister[2] to inform him that I was going to Washington on December 29 in compliance with instructions from the Department.

The President immediately brought up the matter of returned exiles and said that any here illegally and covered by Transitory Article Six of the Constitution would again be expelled from the country. He reiterated his intention to follow an entirely legal line in dealing with the exile problem and said I could assure the Department that he would not allow any of those returning who might be dangerous and could not get Supreme Court approval to remain. He said one of the principal difficulties is the files of the Security Office. The files are completely inadequate for use in opposing appeals by the exiles for Supreme Court injunctions (amparos) and that it often takes the Government considerable time to gather evidence for presentation to the Court. But, he repeated, he will not allow communists[3] to remain in Guatemala.

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[1] Source: Department of State, Central Files, 611.14/12–2857. Confidential. Drafted by Vebber, Counselor of the Embassy in Guatemala.

[2] Adolfo Molina.

The President mentioned the newspaper campaign in behalf of the returning exiles and said that the public is also on their side. The public is anti-Communist, he said, but sympathizes with the exiles when the Government tries to re-deport them. He is determined to follow the law in all cases and said that any attempt to violate the law and arbitrarily jail or expel the exiles would be disastrous and might result in his overthrow.

The President said that with the law on his side he is prepared to deport the exiles as he had done in the case of Gonzalez Juarez. He will follow the same course in the case of Guillermo Toriello. Toriello has gone into hiding. The President said it could be very difficult to find Toriello. He recalled that during the Arbenz regime, he himself was once sought by 100 police with a 6000-quetzal price on his head but although he spent several months hiding only two blocks from where his wife lived, he was not found.

The Ambassador asked the President his impression of the electoral campaign. The President replied that he believed the PR strength to be greatly exaggerated and that the race was between Ydígoras and Cruz Salazar. From his remarks, it seemed evident that he favors Ydígoras. The Ambassador asked if he thought any candidate would get a clear majority. The President hesitated a moment and then replied negatively but he quickly added that if any candidate did get a majority, it would probably be Ydígoras. He told the story of a woman who visited him from one of the outlying towns. She belonged to the Christian Democratic Party, which has proclaimed Cruz Salazar as its candidate in a unification move with MDN and other groups. She said, "Don't worry, Mr. President, in my town we Christian Democrats and the Ydígoristas have an understanding," and she interlocked her fingers to show what she meant. The President said the Christian Democrat leaders could come out for Cruz Salazar but that the rank and file of the party would still vote for Ydígoras.

The President said he had been following a moderate course to gain the confidence of the people and he felt he had succeeded. He said he was neutral in the elections and added that this was proved by the fact that he has been accused by MDN of favoring Ydígoras and by the latter's followers of supporting Cruz Salazar. He said he would tighten up a bit in January but did not say where or how.

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[3] The word "undesirables" was deleted at this point in the source text and replaced by the handwritten notation "communists".

The President seemed confident that the post-election disturbances in October would not be repeated after January 19. He said he would not allow them and implied that he had the backing of the armed forces. He was critical of the way in which the Gonzalez Lopez government had allowed the street demonstrations last October and said that tear gas and smoke bombs could have broken them up. He said people subjected to a constant stream of tear gas would think twice about demonstrating again. He stressed that the army would not shoot Guatemalans in the street and that he would not ask it to do so.

The President repeated that he would not stay in office a single day beyond his provisional term. He said he had been approached by several people with plans for his continuance. One suggestion was that Congress dissolve itself, allowing him to remain as President. He said that if Congress tried that he would lasso the members and bring them back because "a sentry can not leave his post." He admitted he could not anticipate every contingency and remarked that there could be an earthquake on January 19 that would prevent voting. But he will leave office, he said, even if he has to call in "Monseñor" (the Archbishop) and hand over the Presidency to him.[4]

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[4] The elections of January 19, 1958, resulted in a plurality for General Ydígoras. With no candidate receiving a simple majority, the Guatemalan Constitution required that the Congress choose between the leading candidates, Ydígoras and Cruz Salazar. On February 12, the Guatemalan Congress elected Ydígoras. He was sworn in as President on March 2, 1958.

HONDURAS

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND HONDURAS[1]

67. Despatch From the Ambassador in Honduras (Willauer) to the Department of State[2]

No. 287 *Tegucigalpa, December 2, 1955.*

SUBJECT

Airplanes and Parts Honduran Government Desires to Acquire Through Purchase[3]

On November 24 Chief of State Lozano personally requested the Ambassador to forward officially to the United States Government the statement that Honduras is now prepared to enter into a firm contract for purchase of the following equipment for the Air Force of Honduras:

15 F6F–5 Airplanes	$105,000
Spare parts for five years	390,000
10 F4U–5 Airplanes	167,000
Spare parts and complete equipment	640,000
10 T–6–G Airplanes	27,000[4]

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[1] Continued from *Foreign Relations,* 1952–1954, vol. IV, pp. 1293 ff.

[2] Source: Department of State, Central Files, 715.5622/12–255. Confidential.

[3] In a memorandum of August 30, Frederick E. Nolting, Jr. forwarded to the Department of Defense a Honduran request for purchase of military aircraft. This memorandum, sent to the Office of Military Assistance, International Security Affairs, reported that the Department of State approved of meeting the request. The memorandum also recommended that the Department of Defense transmit to the Embassy in Tegucigalpa information on price and availability of various aircraft, adding, however, that formal negotiations for the sale of equipment must be conducted in Washington. (*Ibid.,* 715.5622/6–1655) The substance of this memorandum was transmitted to the Embassy in telegram 35 to Tegucigalpa, August 26. (*Ibid.,* 715.5622/8–1955)

[4] A handwritten notation on the source text at this point reads: "See telegram 105 of 1/13/56 to Tegucigalpa." In the referenced telegram, the Department informed the Embassy that the planes designated for sale to Honduras required rehabilitation. It further reported that the only purpose of a proposed trip by Colonel Hector Caraccioli to the United States would be to sign a sales contract, deposit the purchase price for the equipment, and arrange with private commercial firms for the necessary repairs to the aircraft. (*Ibid.,* 715.5622/1–556)

Lozano stated that an immediate cash payment in full would strain the budget considerably and has asked if any installment terms are available or for other suggestions as to alternative payment plans. However, it appears that financial considerations are of secondary importance and full cash payment can probably be arranged for the speedy completion of this transaction.

Lozano is most anxious to proceed as expeditiously as possible with the purchase of these aircraft and the Embassy strongly endorses the need for speed.

The present aircraft (P–63s and P–38s) are a menace from the safety point of view due to long years of service and extreme difficulty in obtaining replacement parts. It will be recalled that the Chief of the Air Force was killed in an accident May 18 of this year on take-off in a P–38 and recently one of the newly graduated pilots was killed. Additionally, it is felt that the Air Force continues to be apolitical and a great source of stability in the country. If the Air Force appears to be well equipped the chances for peace in the forthcoming elections now likely to be held in April will be notably increased.

Whiting Willauer

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68. Memorandum From the Director of the Office of Middle American Affairs (Newbegin) to the Representative to the Council of the Organization of American States (Dreier)[1]

Washington, December 21, 1955.

SUBJECT

Present Status of Nicaraguan-Honduran Boundary Dispute

The dispute over the boundary between Nicaragua and Honduras arose in the eighteen-fifties, and the first attempt at settlement by appointment of a commission started in 1858. Honduras took exception to a preliminary boundary convention which resulted from the commission's work in 1869. Later in 1894 and 1895 Honduras and Nicaragua ratified the Gámez–Bonilla Treaty which provided for another mixed commission to mark the boundary. Members of the commission could not agree on that portion of the boundary northeastward from Portillo de Teotecacinte to the Caribbean. Under terms of the Gámez–Bonilla Treaty the disagreement was submitted in 1904 to the King of Spain.

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[1] Source: Department of State, Central Files, 615.1731/12–2155. Confidential.

On December 23, 1906, King Alfonso XIII handed down his laudo which generally favored the Honduran claims. This was accepted by Honduras, and also accepted by President Zelaya of Nicaragua who stated in a telegram to the President of Honduras that "the burdensome question of the boundary was settled in a manner [as] satisfactory as the arbitration was friendly . . . "[2] In 1907 President Zelaya stated again that Nicaragua accepted the decision "with pleasure" but that he had given instructions for his minister to obtain clarification on some obscure and contradictory points.

When the Honduran government asked in 1911 that the two governments proceed to mark the border, the Nicaraguan Foreign Minister declared the arbitration null and void. In the meantime Nicaragua was accused of intervention in Honduran affairs. Since that time there have been a variety of attempts at settlement, and relations between the two countries have always been strained in varying degrees. There have been a number of minor border incidents.

The United States extended its good offices in 1913 and again between 1918 and 1920. In 1925 Honduras offered to accept the arbitration of the Chief Justice of the United States.[3] President Moncada of Nicaragua in 1929 publicly stated his acceptance of the King of Spain's laudo, but there was no follow-up toward settlement. Direct negotiations between Honduras and Nicaragua were resumed in 1931 and a Commission of Conciliation with American representation worked intermittently on the dispute for several years without results, until in 1941 the Honduran Government notified the mediating countries that it considered the Commission terminated.

In 1944 the incumbent Honduran Foreign Minister told representatives of the Department that Honduras had withdrawn from the mediation because it gained the impression that Ambassador Corrigan's activities as a member of the Commission tended to undermine the King of Spain's Award. No action was taken during the war years.

More recently the Department's position has been not to take any step which might be susceptible of interpretation of United States involvement in this long-standing question. Our position has been that both parties should make bilateral effort to settle their controversy, and that failing that they should utilize pacific settlement procedures, preferably the International Court of Justice. Both countries appear to be agreeable in principle to this, but there is a dispute on the terms under which it can be submitted. Honduras considers submission to be, in general, a move to obtain enforcement of the King of Spain's laudo, while Nicaragua will not go to court under these terms, since it considers the laudo null and void.

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[2] Ellipsis in the source text.

[3] William Howard Taft.

The only progress made to date has been the agreement of the two countries on the principle of setting up a mixed boundary commission to replace the markers along the border between the Gulf of Fonseca and Teotecacinte. This section of the border is not under dispute although there have been minor incidents, and during May, 1955, Honduras rushed troops to this section. This was the occasion for considerable excitement in Honduras. Chief of State Lozano's opposition and Nicaragua have accused him of using this issue to detract attention from the domestic scene. There have been other minor incidents.

During the past two months, the Honduran Government intensified its activity with regard to the border dispute. Foreign Minister Mendoza has informed us that if the Nicaraguans will not take the matter to the International Court of Justice, Honduras will bring the matter to the COAS. A third alternative, which the Hondurans do not wish to use, would be that of armed force, according to Mendoza.

President Somoza is apparently unperturbed about the situation, and, according to our Embassy, has never reinforced his usual border guard. The various incidents have received only passing notice in the Nicaraguan press. Our Embassy in Tegucigalpa feels that the present attitude on the part of the Lozano government is at least partially attributable to the domestic situation in Honduras and the fact that elections are supposed to be held within a few months. The Lozano government must make some sort of showing on the issue in order to front opposition claims.

The Government of Honduras has appointed Dr. Celeo Davila, a prominent Liberal lawyer, to pursue the Honduran claim, and it has also retained the services of Dr. Manley P. Hudson. Nicaragua, while rejecting the Honduran terms for submission to the International Court, has offered to settle the matter peacefully. One recent bizarre suggestion made by President Somoza was that a union of the border provinces of Honduras and Nicaragua would eliminate the issue, or a union between the two countries. Honduras is currently engaged in lining up support from other American Republics in the event that the dispute is taken to the COAS.

Honduran Foreign Minister Esteban Mendoza has recently been in the United States on an incognito visit for the purpose of discussing the Honduran case with Dr. Hudson. On December 19 he also discussed the Honduran position at length with Assistant Secretary Holland at the latter's home.[4]

The Hondurans indicated that they might consent to arbitration if the terms are phrased so that the Laudo of 1906 is not the issue. He said it might be agreeable to Honduras if one or both countries made charges that their territories were illegally occupied and that this issue be put up to the International Court of Justice without specific reference to the laudo.

Mr. Holland said that he would be glad to mention the matter informally to the Nicaraguans without assuming any responsibility. This was done on December 21, when Mr. Newbegin talked with Ambassador Sevilla Sacasa, who promised to consider the possibility and to take it up confidentially with the Nicaraguan Foreign Office during a holiday visit in Managua.

In June 1955, Miss Whiteman, Assistant Legal Adviser, prepared a 20-page summary concerning the history of the border dispute, if more detailed information is desired.[5]

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[4] According to a memorandum of conversation of December 19, Mendoza stated to Holland that three courses were open to Honduras in this matter: "(1) She could settle the matter by recourse to arms; (2) refer the matter to the International Court of Justice which she was ready and willing to do, but there was some question as to the feasibility of this since the Nicaraguan Government had not accepted the compulsory jurisdiction of the Court; (3) refer the matter to the OAS under the appropriate provision of the Rio Treaty." (Department of State, Holland Files: Lot 57 D 295, Honduras) The Inter-American Treaty of Reciprocal Assistance (Rio Treaty) was signed at Rio de Janeiro, Brazil, September 2, 1947, by representatives of the United States and 18 countries of Latin America. It was ratified by the President of the United States on December 12, 1947, and entered into force on December 3, 1948. For text, see 62 Stat. 1681.

[5] Not found in Department of State files.

69. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, July 12, 1956.

SUBJECT

Honduras: Exiling of Liberal Party Leaders Increases Tension

The Department is informed that de facto Chief of State, Julio Lozano, with the consent of the cabinet, on July 9 arrested and exiled Ramon Villeda Morales, Liberal Party head, Francisco Milla Bermudez, Liberal leader, and Oscar Flores, Liberal newspaper editor. The deportation to Guatemala followed a purported attempt to foment a general strike against the government on July 25. Gonzalo Carias, a Nationalist Party leader, has presumably avoided an attempt to exile him.

Lozano's action, which we feel was ill advised, may bring a showdown between the government and the opposition prior to elections which were called for October 7. There has been some student rioting, but without casualties or serious consequences reported to date. Lozano claims to have the situation in hand although he has admitted to Ambassador Willauer that these developments will probably preclude his attendance at the Panama Meeting.[2] He can probably maintain control as long as the armed forces remain loyal.

There is speculation concerning the role of ex-President Tiburcio Carias, former "strong man", and his Nationalist Party. The Nationalists have recently been aligned with the Liberals for the purpose of ousting Lozano either by election or possibly by other means if they feel that the election is controlled by Lozano. Carias may still have backing from some military elements.

Liberals and Nationalists polled eighty per cent of the vote in 1954 elections although they were not in alliance at that time. A bitter feud has been in progress for the past five months between the government and the opposition, and Lozano has been moving more toward the use of force to maintain control. One small faction of the Liberal Party is supporting the government instead of Villeda, and Lozano is also backed by the Reformist Party and some Nationalists. His popular support is, however, in the minority.

It is believed that this is largely a domestic political struggle and that the small Honduran communist group is not playing any important role, although it may be expected to attempt to take advantage of any difficulties. Many Liberals are said to feel that the United States is "supporting" Lozano and the action of the Chief of State might increase anti-American feeling in some areas.[3]

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[1] Source: Department of State, Central Files, 715.00/7–1256. Confidential. A handwritten notation on the source text indicates that the Secretary saw this memorandum.

[2] See vol. VI, Documents 109 ff.

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[3] In a memorandum to Holland, July 16, Hoyt wrote that there was not yet sufficient information to estimate the probable effect of the exiling of the Liberal Party leaders. The memorandum reads in part: "It is thought in MID that the exile of Villeda might serve to increase his stature and popularity in some sectors. If he plays his cards right he could return as a hero to campaign with increased popularity." (Department of State, Central Files, 715.00/7-1656)

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70. Memorandum of a Conversation, Department of State, Washington, September 27, 1956[1]

SUBJECT

Honduras: Delay in Return of Ambassador Willauer

PARTICIPANTS

ARA—Mr. Rubottom
Ambassador Willauer
MID—Mr. Neal, Mr. Wollam

During the course of a general conversation on the Honduran political crisis, Ambassador Willauer referred to a previous conference attended by him with Mr. Holland, Mr. Neal and Mr. Wollam. At that conference, the Ambassador pointed out that he felt he could possibly aid in bringing about a peaceful compromise solution between all the parties in the forthcoming elections but that he was not free to do so under Department's instructions of June 26.[2] He reminded those present at the current meeting that it had been decided at the previous meeting that the Ambassador's instructions should not be changed, but that another course of action in the interests of peace should be formulated and attempted with the aid of other agencies and with the Ambassador's assistance in the planning.

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[1] Source: Department of State, Central Files, 715.00/9-2756. Confidential. Drafted by Willauer.

[2] In instruction 140 to Tegucigalpa, June 26, the Department stated that the Embassy should abstain from any activity which gave the appearance of interference in the domestic politics of Honduras. (*Ibid.*, 715.00/6-2656) In a memorandum of conversation dated August 15, Ambassador Willauer stated in part that "he thought the only hope for Honduras was a tripartite coalition government which would provide all groups with participation in the big business of government. He felt that the Department's instruction did not give sufficient latitude for him to take advantage of opportunities to use his influence with the various factional leaders to this end." (*Ibid.*, 715.00/8-1556)

The Ambassador went on to say that he had heard that the Department was considering the advisability of his not returning to Honduras until after elections. He commented that because of certain special high-level instructions under which he had acted during the Guatemalan crisis[3] and the sequence of events during and after the elections of 1954, when he had worked with all political leaders to preserve peace in Honduras, all important Honduran politicians looked to him as a personal friend and as a force for peace and compromise in their countries. In the upcoming crisis, probable at the time of the October elections, it would be difficult for him to be in Honduras and still see these leaders without the risk of unfounded accusations of intervention from those who might ultimately lose out particularly because in any conversation which he might have, he would feel precluded by the aforementioned instruction from trying to work out a compromise whereby nobody would be seriously hurt in the elections.

After a general discussion of this problem, it was the consensus that in view of the Department's policy in these instructions and the other factors involved, it would probably be better for Ambassador Willauer to remain away from Honduras until after the elections. Ambassador Willauer agreed to the suggestion that since the Department in this situation desired to be very strictly non-interventionist, his staying away, resulting in having no part in any negotiations, would help to confirm in the minds of the Hondurans our policy of strict non-intervention.

It was then pointed out that while it would be entirely normal and usual for the Ambassador to be present during elections, Mr. Rubottom and Mr. Neal agreed that under the circumstances it would be preferable for the Ambassador to stay away if a reasonable excuse could be found. The Ambassador then stated that it was well-known in Honduras that he had had a mild illness which had been diagnosed locally as a case of typhoid, and had been under medical treatment for three weeks during the month of July. Since it is well-known that typhoid is difficult to contract after proper inoculations, the Ambassador has been taking special checkups in the States to find out just what his previous illness had been. The fact of the matter is that he has been given a clean bill of health by the highest authorities in the United States. Nevertheless, since this is not known publicly, it would be possible to build a very plausible story around the Ambassador's absence, on the grounds that additional checks were still needed.

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[3] For documentation on the overthrow of Guatemalan President Jacobo Arbenz by Carlos Castillo Armas in June 1954, see *Foreign Relations*, 1952–1954, vol. IV, pp. 1173 ff.

It accordingly was decided to cable in the clear to the Embassy that the Ambassador needed additional checks and therefore could not be back during the elections.

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71. Editorial Note

In elections to the Honduran Constituent Assembly held on October 7 the National Union Party, supporters of President Lozano, won all 56 seats. On October 21 Lozano was deposed in a bloodless coup by a military junta composed of General Roque Rodriguez, Lieutenant Colonel Hector Caraccioli, and Major Roberto Galvez. In an unnumbered telegram from Tegucigalpa, October 21, Chargé John C. Pool stated in part, "Lozano turned over authority in presence diplomatic corps (four being absent including me) but not in presence junta or their reps. Corps accordingly does not consider presence constituted recognition junta." (Department of State, Central Files, 715.00/10–2156) In telegram 183 from Tegucigalpa, October 23, Pool reported that the new government had effective control of the country and seemed to enjoy the support of the major political parties. Pool stated further that in a proclamation read over the radio, the junta "promised on honor as military men to remain in power only for that period required to bring country back to constitutionality, at which time they would turn over government to civilians of truly popular choice. Embassy recommends recognition." (*Ibid.*, 715.00/10–2356)

72. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, October 24, 1956.

SUBJECT

Recognition of New Government of Honduras

On October 23, 1956, our Embassy in Tegucigalpa received a note from Foreign Minister Esteban Mendoza formally notifying the United States of the establishment of a new government in Honduras. The note states that the new government commands the recognition, respect and obedience of all civil and military authorities, that there have been no disorders, and that the populace has received the new government with enthusiasm. It further states that the new regime will fulfill all commitments and international obligations, and that it desires to continue cordial relations with the United States. According to the note, a fundamental purpose of the new Government is to restore constitutionality through early free elections.

The new government is headed by a military junta composed of General Roque Jacinto Rodriguez, Lt. Col. Hector Caraccioli Moncada, and Major Roberto Galvez Barnes, who assumed control in a bloodless coup on October 21, 1956. The new cabinet contains representatives of the majority parties as well as independents. Members of the junta are considered pro-American and anti-communist.

It is believed that the new government has the support of a large majority of the population in addition to the organized armed forces. The action by the new junta may have precluded a violent revolution which had been feared under the conditions previously pertaining. The statements contained in the note delivered by the Government of Honduras are believed to be essentially correct, and the usual requirements for recognition have been met.

Adherents of the former Lozano Government made a strenuous and partially successful effort to convince the populace and other countries that the United States "supported" Lozano. For this reason and in the furtherance of the best interests of the United States at this time it is believed that we should give prompt recognition to the new government.[2]

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[1] Source: Department of State, Central Files, 715.02/10–2456. Confidential.

Recommendation:

That you sign the attached memorandum to the President, and authorize us to extend recognition not later than Saturday, October 27, 1956.[3]

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[2] In a memorandum to Rubottom, October 22, Jack D. Neal stated that "for various reasons the United States has been closely identified with the Lozano regime. This was last commented on by the Inspectors who are currently in Tegucigalpa. We have been endeavoring to illustrate that we were not closely tied to Lozano, and that we are pursuing a policy of non-intervention. It is thought that we should, for the above reasons, grant recognition to the new government without undue delay." (*Ibid.*, 715.02/10–2256)

[3] The United States extended recognition to the military Government of Honduras on October 27. For a press release, see Department of State *Bulletin*, November 5, 1956, p. 703.

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73. Letter From the Ambassador in Honduras (Willauer) to the Acting Secretary of State[1]

Tegucigalpa, November 30, 1956.

DEAR MR. HOOVER: I am writing you personally despite the fact that I know you are snowed under by the international problems you are so ably handling. I am doing this because on numerous occasions you have personally shown me consideration for my own problems in running the job down here and also I know that in your former civilian capacity you had much experience in Central America.

We are at a critical juncture in the affairs of Honduras and if things don't go right here I prophesy they won't go right in the rest of Central America. I don't say there will be Guatemala to do all over again but I do submit that there will be a real mess, and as you know, messes in Honduras, the center of Central America, traditionally slop over into other countries.

What has happened in essence in Honduras is that a group of the finest men in the country have taken over. This is the Junta and their supporters, military and civilian, that staged a bloodless coup on October 21. They all appear to be dedicated patriots, and most of them are civil leaders who have never been in politics, have gotten sick and tired of all the mess caused by personalized political ambitions in the last several generations and have "thrown out the rascals." This, of course, they had to do with the aid of the military who to date have shown themselves to be not such a bad lot.

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[1] Source: Department of State, Central Files, 715.00/11–3056. Secret; Personal.

Through regular channels I shall be submitting next week a request for a small amount—not to exceed five million dollars—of Smathers Amendment long-range loans and/or grant-aid.[2] I hope some real attention will be paid to this request because I feel that unless the economy moves forward—and this money is required for that purpose—the good civilian elements in the Government will lose ground and we will be headed for a tough, tight dictatorship which will inevitably tend to align itself with the politicos who have just been thrown out.

Let us not forget in our deliberations that we really owe Honduras something for the part she played in the overthrow of Arbenz. Incidentally, the Hondurans themselves feel this very keenly. I hasten to add that they are not making any demands but when they view all that is being done for Guatemala they are a little hurt at our apparent neglect of Honduras during its past and present crises. You will recall that at great peril to themselves they gave a home and base to Castillo Armas without which he could not have overthrown Arbenz. You will also recall that most of their current economic ills can be directly traceable to the disastrous strikes which the Communists organized and financed from Guatemala as a counter-measure to prevent the Castillo Armas attack.

Perhaps because of its size, perhaps because of its previous tranquil history, but in any event for some cause or other there has been a tendency to push the problems of Honduras into the background, in comparison to the treatment given to more dramatic problems of Guatemala or of Costa Rica and Nicaragua. I cite you two instances: On October 10, 1955 then Chief of State Lozano unsolicited walked into my office and presented me with a check for $25,000 for aid to the distressed area of Connecticut after our floods in 1955. This was in appreciation for what we did at the time of Honduras' floods in 1954. I asked the Department for maximum publicity at home but very little was done. When I was in Connecticut visiting such a well informed man as my friend Roy Larsen, President of Time, at his farm I discovered that neither he nor his farmer had heard of this.

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[2] The amendment to the Mutual Security Act of 1956, named after Senator George A. Smathers (D–Fla.), provided for the use of a portion of the defense support funds authorized in the Act for health, education, and sanitation projects, and for land resettlement programs in Latin America. For text of the Mutual Security Act of 1956, (Public Law 726), enacted July 18, 1956, see 70 Stat. 555.

On November 12, 1956 Honduras was one of the first to offer to take Hungarian refugees. They sent a telegram directly to President Eisenhower, not knowing any other channel. Proportionately, the 100 they offered to take represented twice what the United States appears to be doing and was very early in the game. *To date* no acknowledgment of this gesture has been received and in the first list of the United Nations Relief Commission Honduras' name was left off.[3] There is a long list of similar apparent neglect such as in the cash purchase of planes.

For all of the foregoing reasons and for the additional reason that after all Honduras' vote in the United Nations (which has always *until now* followed the United States) is important to us these days, I earnestly request a few minutes of your time to see what we can do for this very deserving Government.

With warmest personal regards, I am,

Sincerely yours,

Whiting Willauer

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[3] A handwritten note, "Done", appears at this point in the source text.

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74. Memorandum From the Director of the Office of Middle American Affairs (Neal) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, December 6, 1956.

SUBJECT

Honduras: Letter of Ambassador Willauer to the Under Secretary

Reference is made to a personal-secret letter dated November 30, 1956 to the Under Secretary from Ambassador Willauer which was delivered to his office by Mr. Kimmel[2] and referred to MID for reply.

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[1] Source: Department of State, Central Files, 611.15/12–656. Secret. Drafted by Park F. Wollam of the Office of Middle American Affairs. Transmitted to Rubottom under cover of a handwritten note from Neal, December 7, which reads: "Dick—Park W. is a bit hurt because of some of Whitie's statements in his letter to Hoover. It is too bad Whitie feels he has to cast reflections on others while he is trying to polish his own apple. His statements are so unfounded they don't worry me but we should set the record straight by a letter from you or Mr. Hoover. Jack." A handwritten notation on Neal's note reads: "Park, Try drafting a letter—see me first. R.R.R."

[2] Roy I. Kimmel, First Secretary and Consul of the Embassy in Honduras.

In this letter Ambassador Willauer requests consideration for special assistance to Honduras in its present economic crisis. He also notes an alleged tendency to "push the problems of Honduras into the background" and he refers to several matters in which he feels that the Department has not given adequate consideration to Honduras.

1. Publicity for Honduran Aid to Connecticut in 1955:

Ambassador Willauer infers that little was done to give publicity to the generous gesture of Chief of State Lozano in sending $25,000 for aid to the distressed area of Connecticut after the 1955 floods. In this instance press and newsreel coverage was arranged when Ambassador Izaguirre presented the check to Mr. Bunker[3] at Red Cross Headquarters.

2. Lack of Reply Regarding Honduran Offer to Take 100 Hungarian Refugees:

The Honduran telegram to the President on November 12 reached this office late on Friday, November 16. A reply was coordinated with other sections of the Department on that date. Between November 19 and November 21 the suggested telegram from President Eisenhower was hand-carried for high-level clearance in six bureaus and was forwarded by ARA to the Secretariat on November 22. It was returned to ARA by the Secretariat on November 26 with the request that it be re-phrased as a message from the Acting Secretary. This was done on the same date and it was returned to the Secretariat. The Secretariat actually sent the telegram on November 28.[4] In addition to the hand-carrying for clearances, the Staff Assistant made various endeavors to obtain faster action through the Secretariat.

3. Purchase of Planes for Honduras:

There was some delay in the purchase of planes for Honduras last spring. This delay was caused by the failure of the Honduran Government to meet the legal and technical requirements of the Department of Defense, despite advice on the procedures on the sale of the planes. The sale was completed promptly after these requirements were met and the Embassy was informed at all times of the progress of this transaction. This office has attempted to exercise considerable prudence with regard to arms purchases by Central American governments. This policy has paid off since we are now in a position to return $319,000 Honduras spent on a munitions purchase which was at first approved by the Embassy. As you know, the Government of Honduras can make much better use of this sum at the present time.

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[3] Ellsworth Bunker, President, American National Red Cross.

[4] Not further identified.

4. Honduran Vote in the United Nations:

The Ambassador's letter states that the Honduran vote in the United Nations which has followed the United States "*until now*" is very important and implies that this may may not be the case in the future. This office has gone through unusual efforts to see to it that the Honduran representative to the U.N. Ambassador Tiburcio Carias, Jr., has been assured of our gratitude and our esteem, especially following the unnecessary holding up of notification of the agreement for Carias by Ambassador Willauer for a period of approximately one week.

It is felt in general that whether or not this is the intention, this letter conveys an unwarranted and regrettable impression concerning the efficiency of this office and of this Bureau. It is hoped that any possible resulting misunderstandings can be corrected for the record. As you know, this office has attempted to keep ARA and the higher echelons of the Department fully informed on all developments in Honduras. It is felt that any investigation of these seeming complaints would in general justify the action taken in this Bureau with respect to Honduras.

It is suggested that these points be documented in detail for the record and possibly for a reply to Ambassador Willauer. This office is prepared to do this in any amount of detail required.

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75. Letter From the Under Secretary of State (Hoover) to the Ambassador in Honduras (Willauer)[1]

Washington, December 8, 1956.

DEAR MR. AMBASSADOR: I have received your letter of November 30, 1956 regarding current problems in Honduras, and I appreciate your interest in keeping me informed of your views.

With respect to the request for financial assistance to the Government of Honduras, I am told that your Economic Officer, Mr. Roy I. Kimmel, has already presented your proposals directly to the

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[1] Source: Department of State, Central Files, 715.00/11–3056. Secret; Official–Informal. Drafted by Wollam.

Acting Assistant Secretary, Mr. Rubottom. He and his staff are currently attempting to determine what aspects of the proposed program are feasible under current policies. Mr. Kimmel is also in consultation with the appropriate officials in the International Cooperation Administration, which has the responsibility for administering the Smathers Amendment Funds, and with the Export-Import Bank.

You and the members of your staff have kept the Department well informed regarding the problems of Honduras and the nation's importance relative to the Central American scene. The Department has followed with interest the developments of the past few months which have resulted in the emergence of the new junta government. We are hopeful that the new leadership can make substantial progress toward resolving the constitutional and economic problems which have plagued Honduras.

I have asked Mr. Rubottom to look into the items you specifically mention and to communicate with you directly when appropriate.

You may be certain that the Department will give all possible consideration to your request. Every effort will be made to assist Honduras in a manner consistent with our policies and in relation to our obligations in Latin America and elsewhere in the world.

Sincerely yours,

Herbert Hoover Jr.

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76. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, March 4, 1957.

SUBJECT

Revival of Honduran-Nicaraguan Boundary Dispute

During the past two months the Military junta of Honduras has stimulated renewed interest in reclaiming and colonizing the Mosquitia.[2] Five hundred troops are now being moved into the area technically considered under litigation by Nicaragua and actually only a few miles from territory occupied by Nicaragua, which feels it necessary to take preliminary defensive measures. With the obdurate positions of the two governments either one could feel justification for "defensive" action. We do not as yet have any definite information of the exact Honduran intentions in the area.

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[1] Source: Department of State, Central Files, 615.1731/3–457. Confidential.

[2] The department of La Mosquitia is located along the Caribbean coast in the southeast corner of Honduras.

The long-standing dispute was arbitrated by the King of Spain who issued a laudo in 1906 conceding the Honduran claim to all territory North of the Coco or Segovia River and roughly east of longitude 86. This was disavowed by Nicaragua in 1911. Since 1906 Honduras has remained firm on the position that there is no dispute and that there is merely a question of obtaining enforcement of the laudo. Nicaragua has, however, long occupied parts of this territory especially that between the Coco and Cruta Rivers. Nicaragua has maintained loose administrative control over the area covering the watershed of the Coco River.

We intend to request a statement of Honduran intentions which might tend to calm the situation temporarily pending a more definite legal settlement. This will be done by calling in the Honduran Ambassador[3] here and by an approach to the Foreign Office. We have a direct interest in the matter because of Honduran hope for a Smathers Fund loan for another development project, and this could be used as a lever if necessary.

We will continue to urge bi-lateral negotiation or the use of pacific settlement procedures such as the ICJ. In doing so we will continue to exercise extreme caution to avoid any step which might be susceptible to interpretation that the U.S. is favoring one claim over the other.[4]

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[3] Ramón Villeda Morales presented his credentials as Honduran Ambassador to the United States on January 18.

[4] In telegram 202 to Tegucigalpa, March 6, the Department stated in part: "Events of last few days and lack any firm undertaking from Honduras to refrain from further provocation of Nicaragua and apparent failure restrain patrol activities in disputed area are rapidly eroding climate sympathy enjoyed by Honduras here so far. U.S. would encounter great difficulty in reconciling military activities with country's reported budgetary crisis. If Embassy has not received firm assurances of Junta's resolve to quiet situation such as through reassuring statements and orders to forces in field to desist from provocatory acts, Embassy instructed immediately bring foregoing attitude of US to attention Junta as practical aspect situation." (Department of State, Central Files, 615.173/3–657) This telegram was repeated for information to Managua.

77. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Acting Secretary of State[1]

Washington, March 7, 1957.

SUBJECT

Honduran-Nicaraguan Boundary Dispute

1. *Latest Developments:* Background material was furnished in ARA memorandum of March 4, 1957 to the Secretary. An estimated 350 Honduran troops plus some civilians were airlifted to the Mosquitia area on Sunday March 3. The Nicaraguan Government has told us it will not advance its forces beyond present border guard posts. The Honduran Government has ordered its troops not to engage in hostilities "unless attacked." The three-man Honduran military junta flew to the disputed area for a 24 hour observation visit on March 6, and the Honduran Foreign Minister plans to issue a communiqué today March 7 avowing Honduras' peaceful intentions at the same time reaffirming Honduran sovereignty in the area in question. Both Nicaragua and Honduras have indicated to us that they are willing to settle the boundary question by peaceful means. In the past the two countries have been unable to agree upon terms of reference since Honduras insists upon the finality of the 1906 award and Nicaragua is equally insistent that the 1906 award was faulty.

Public opinion has become aroused in both countries although there has been no break in relations or even recall of Ambassadors for consultation. President Luis Somoza feels he cannot take any position which would appear "weak", and he fears that Nicaraguan exiles are involved. The military Junta in Honduras also feels for domestic political reasons it cannot yield any "Honduran territory." The Nicaraguan Ambassador[2] here has hinted that in case of hostilities Nicaragua can rely upon strong friends and the Honduran Foreign Minister[3] has voiced suspicions that a Nicaraguan-Dominican-Venezuelan entente against Honduras–El Salvador–Costa Rica may be in the making. We have no other evidence of such an alignment of forces.

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[1] Source: Department of State, Central Files, 615.1731/3–757. Confidential.

[2] Guillermo Sevilla-Sacasa.

[3] Esteban Mendoza.

[Enclosure]

1. We are urging that Honduras make a clear statement of its intentions which might help mollify Nicaragua (this expected momentarily), and to urge both governments to use measures to quiet public opinion.

2. Since there is still considerable difficult jungle terrain between the military forces, at most points, we shall use all possible diplomatic leverage to prevent additional advances by either side or aggressive actions which might lead to actual conflicts, i.e. thus creating an informal buffer zone.

3. We are endeavoring to persuade the governments that it would be profitable for the President of Nicaragua and one or more members of the three-man military junta governing Honduras to meet to (1) establish a buffer zone (2) prepare climate for definite arbitration by International Court of Justice or other agency.

4. After immediate crisis is past, we shall continue to urge a conclusive settlement of the border question, although this may take considerable time.

Alternate Courses of Action:

1. As a parallel, we are encouraging the Organization of Central American States (ODECA) through its Secretary General to use its good offices in the dispute in addition to regular diplomatic channels.

2. In the event that hostilities should break out, we will work through the various OAS mechanisms to bring about a truce and more definite settlement.

78. Memorandum From the Director of the Office of Middle American Affairs (Neal) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, March 11, 1957.

SUBJECT

Comments on Honduran-Nicaraguan Border Dispute

On the basis of information now available and a further study of the background, MID feels that there are three probable major motives behind the Honduran move.

1. It is believed that this ill-timed move was largely for domestic political purposes. It can not yet be proved, but it is believed that the junta's return to constitutionality which has been announced for the near future, calls for a plan to hamper the aspirations of the so-called Villeda Morales or "leftwing" Liberals, which may still have a majority following. If this thesis is correct, the current bold move toward the Cruta is designed to build up the junta, give prestige to its future actions, and draw popular attention away from the constitutional plan designed to eliminate the early possibility of electing Villeda as president. The Liberals have traditionally been the party which has made the most noise on the subject of irridentism. Likewise, if this thesis is accepted, it must be assumed that the junta was unaware of the probable extent of the Nicaraguan and international reaction; this was indicated in some of the early telegrams, as well as more recent conversations.

2. *Cruta Irridenta*

Hondurans feel very strongly on the subject of the Cruta which is its "Trieste". Progress toward settlement of the problem would be a boost for any government. It is thought, however, that actual settlement of the problem was secondary to the domestic smoke-screen in this instance.

3. *Military Build-up*

This may be an effort on the part of the military group in Honduras to build up its prestige. The military have not been as important in Honduras as in some other countries. It is doubtful, however, if this is the determining factor.

The junta stands a chance of losing prestige if it now fails to achieve spectacular results in the Mosquitia after the publicity build-up. This could possibly, although not probably, cause the fall of the present government. It is difficult to see how the junta can extract much glory for having (perhaps inadvertently) stirred up a hornets nest, spent extra much-needed funds, and not accomplished much of a concrete nature. Unless we handle the situation with care we could well add to the domestic discomfiture of the junta.

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[1] Source: Department of State, Central Files, 615.1731/3–1157. Confidential. Drafted by Warner and Wollam. A handwritten notation on the source text reads: "Thanks. An excellent paper. Agree with recommendations assuming Honduras does not further aggravate situation. R.R.R."

Nicaragua

Honduras made a tactical error with the "spectacular" air lift and the publicity as well as the mystery surrounding Honduran intentions. If this move to the Mosquitia had been accomplished quietly there would probably have not been any complaint since Nicaragua has been doing this for years along the Coco and the Cruta (e.g. Waspam). The Hondurans have actually done nothing which has in any way damaged the Nicaraguan claim or which affects territory traditionally occupied by Nicaragua.

Nicaragua has achieved considerable advantage, both domestically and internationally, out of being the "aggrieved" party on the basis of suspicion of the intentions of Honduras. It has also used the "crisis" to advantage domestically. Nicaragua is attempting to make the most of this psychological advantage through its superior international organization.

With respect to Nicaragua and Central America the following points should be kept in mind:

1. Nicaragua has in no way been physically aggrieved, and possibly there was no intention of injuring Nicaraguan interests.
2. Responsibility for failure to settle the boundary dispute over the years belongs at least half to Nicaragua. Honduras probably has a better historical claim.
3. It remains to be seen whether Nicaragua will, any more than Honduras, make any concessions on the terms of reference or on territory, which will be absolutely necessary on both parts to obtain a final settlement. Each country considers a court settlement only as a means of obtaining enforcement of its own views on the subject.

For these reasons, even though the immediate crisis is probably past, barring some unfortunate incident, it is believed that we should continue to point out the desirability of arriving at a definitive settlement of the problem.

We can not, however, insist upon this or make it a conditioning factor in our relations with either country. We have no vital strategic interest at stake in the dispute. Since this is the case, there is no reason for the U.S. to share the onus of the final determination which is bound to be unpopular with at least one side and which could cost us prestige with one or both sides.

79. Memorandum From the Deputy Director of the Office of Middle American Affairs (Stewart) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, April 22, 1957.

SUBJECT

Honduras: Plan for Phased Return to Constitutionality Suffers Setback

Summary:

The Honduran military are unwilling to accept the "phased" return to constitutionality plan worked out by Junta member Roberto Galvez and his advisors. Galvez et al. sounded out the military on this hoping for their backing to oust General Rodriguez from the Junta since his opposition to the plan was already apparent. Having failed in this, Galvez' position has taken an abrupt turn for the worse. Galvez suspects that Rodriguez and other military men are plotting to assume military dominance by agitating for free elections and then seizing upon some disorder in the electoral process as an excuse to take power. If this reported military opposition to constitutional government becomes clearly defined, the Galvez faction conceivably might seek support from Villeda Morales and the Liberals to help save the country from a military dictatorship. Our Embassy reports that the Galvez faction is seriously considering calling Villeda Morales back from Washington for this purpose.

Background:

Honduras' Constitution broke down in December 1954 when the Congress failed to meet and choose a President from the two leading vote-getters in the inconclusive October elections (Villeda Morales and General Carias[2]). The ensuing de facto regime under Lozano was unable to solve the problem of returning to constitutionality and after holding patently fraudulent elections in October 1956, was overthrown by a three man military Junta. The Junta was accepted by all political factions on the premise that it was a caretaker government pledged to an early return to constitutionality. Since December the Junta has been increasingly concerned with the constitution question which in turn brings up the underlying political problem which forced the constitutional break-down.

Honduras' basic political problem during the past three years has been the desire of the Nationalists and Reformists to retain the power they have held since 1932 in spite of the apparent numerical superiority of the Liberals. The problem is complicated by the family quarrel between the Nationalist Party and its insubordinate offshoot, the Reformists. The Reformists split off from the Nationalists prior to October 1954 elections when the former wanted to "run" then-President Juan Manuel Galvez against Nationalist Party Chief Carias. After the constitutional break-down the Reformists backed Lozano. Political logic points to the desirability of the Reformists and Nationalists burying their differences to unite against their common enemy, the Liberals, but efforts to heal the breach have failed so far. A new element entered the political picture in late 1956 when the military abruptly emerged as the key factor in overthrowing Lozano. If the military stay in politics, as it now appears they may, their support may be the decisive factor in any political struggle causing all parties to vie for their approval.

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[1] Source: Department of State, Central Files, 715.03/4–2257. Confidential.

[2] Tiburcio Carías Andino, President of Honduras, 1933–1948.

Present Situation:

Both Liberal and Reformist Party spokesmen during the past month have been calling for early elections of a constituent assembly to adopt a constitution and put the country back on the rails of de jure government. The Reformists are apparently building up Junta member Rodriguez as their political champion, hoping to capitalize on his bellicosely patriotic statements and field leadership in the recent expedition to "colonize" areas in dispute with Nicaragua. This expedition had been planned back in February with quite a different political end in view: the Junta had hoped to build up sufficient patriotic feeling to enable it to launch a plan for a carefully "phased" return to constitutionality which would have precluded the type of election desired by the Liberals and apparently by Rodriguez and the Reformists.

By early April Roberto Galvez and his advisors became convinced that General Rodriguez's probable opposition to their plan for return to constitutionality would necessitate removing him from the Junta. However, after sounding out the rest of the military on their plan they found that the military would not support it and that the "current consensus of opinion is in favor of a simple constitutional assembly election." In these circumstances it would be risky to attempt to "ditch" Rodriguez. At the same time, the Galvez faction suspects that a plot is being prepared to ensure continued military dominance of the government. The plotters allegedly include General Rodriguez and the Ministers of Defense[3] and Government, with former Foreign Minister Mendoza supplying the brains. The Reformists supposedly would back such a plot.

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[3] Oswaldo López, Minister of Defense.

Our Embassy concludes that Roberto Galvez has "lost greatly" in influence with the military and that General Rodriguez and the Minister of Defense are in the ascendency. The Galvez faction appears undecided as to its future course.

Conclusions:

1. Pressure from all sides for a definition of how and when to return to constitutionality is becoming so strong that the issue may be squarely and publicly faced in the very near future.
2. If basic disagreements over this issue persist, a split in the Junta seems imminent, and a political polarization of Honduras over the issue could logically develop.
3. The attitude of the military seems to be of paramount importance at this juncture. If suspicions of the military's intentions of retaining power prove well-founded, the traditional Nationalist versus Liberal alignment in Honduran politics may tend to break down and it is conceivable that the civilian-government proponents of all parties might join forces to oppose military dominance. That the Galvez faction is thinking in this direction is apparent from the Embassy's report that Galvez et al. are seriously considering calling Villeda back from Washington to help whip up popular support for freely-elected civilian government. This would be an almost complete about-face from Galvez' position in December and January when he and his advisors wanted to get Villeda out of the country in order to maintain political tranquility.

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80. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Acting Secretary of State[1]

Washington, April 29, 1957.

SUBJECT

Nicaraguan-Honduran Controversy

There has been a new flare-up in the century-old dispute between Nicaragua and Honduras following a period of relative quiet since the first week in March. There is now the possibility of a break in relations or armed clashes.

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[1] Source: Department of State, Central Files, 615.173/4–2957. Confidential.

During the past two weeks small incidents have been used to arouse public opinion in Honduras, apparently with the support of extremist elements of the government. Nicaragua, although not without blame in the incidents and in the border controversy, has seemingly been on the defensive. The inauguration of President-elect Luis Somoza on May 1 makes it appear doubtful that Nicaragua would start anything at this time.

Nicaragua fears collusion between various exiles planning an attempt against the Somoza regime and some Honduran elements. . . . report that Nicaraguan exiles have recently been active in Honduras and El Salvador and are thought to be preparing an underground movement, although no collusion can be proven at this time.

The Somozas have many enemies at home and abroad who will take advantage of any likely opportunity for a revolt. Most Central Americans, with the exception of the Castillo Armas supporters, would welcome the fall of the Somozas. Any aggression on the part of Honduras would mean moderate elements have lost the upper hand and a change in the government might ensue.

U.S. Position

We have continually urged moderation and have used informal good offices on many occasions. We have frequently suggested that the two nations arbitrate their dispute or take it to an international tribunal. We will continue to do so.

Any armed clashes will undoubtedly bring the Organization of American States into action, and we are prepared to support any conciliatory or mediating action. Our relations with both countries have been very good, and it is not to the U.S. interest to take sides on the boundary issue itself. We are temporarily withholding a Smathers Fund loan to Honduras.[2]

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[2] In a memorandum of telephone conversation, April 29, Ambassador Willauer informed Rubottom that the Honduran Government had sent a message to the OAS stating that Nicaragua had committed aggression against Honduras under the terms of Article 17 of the Charter of the OAS. Willauer, who initiated the telephone conversation, stated further that the Honduran Government planned to send a second message requesting an OAS investigation of the matter. Rubottom stated that the Ambassador should inform the Honduran Government that "we could not justify a Smathers Fund loan under the present circumstances." (*Ibid.*)

81. Editorial Note

The Council of the Organization of American States met on May 1 to consider two notes from Honduras that charged that Nicaragua had invaded its territory to occupy the town of Mocoron. Honduras requested that the Council take appropriate action under provisions of the Inter-American Treaty of Reciprocal Assistance (Rio Treaty). On May 2, Nicaragua also invoked the Rio Treaty, stating that Honduras was the aggressor in this situation. The Council appointed a committee composed of representatives from Argentina, Bolivia, Mexico, Panama, and the United States to investigate. After meeting with government leaders in Tegucigalpa and Managua, the OAS investigating committee drafted a cease-fire agreement which was accepted by both parties on May 5. At the Secretary of State's Staff meeting on May 6, presided over by Under Secretary of State Robert Murphy, Rubottom reported on the situation in Central America as follows: "Mr. Rubottom said that Ambassador Dreier had called him last night to report on the very rapid action in both capitals taken by the Fact Finding Group and of their apparent success in getting agreement on a cease fire. Amb. Dreier, however, is very apprehensive about the situation which he considers to be the worst in many years in the Central American area, with an ugly mood prevailing. Mr. Rubottom also said that it was probable some military support in the form of observers and airplanes, probably from other Latin American countries, would be needed." (Department of State, Secretary's Staff Meetings: Lot 63 D 75) Additional documentation on this subject is *ibid.*, Central Files 615.17 and 615.1731.

82. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, May 10, 1957.

SUBJECT

Nicaraguan-Honduran Border Dispute

The Embassy at Managua informed us at 11:00 AM, May 10, that the Investigating Committee of the OAS has concluded a satisfactory plan for a cessation of hostilities between the Governments of Nicaragua and Honduras, although full details are not yet available.[2]

Preliminary information indicates that the agreement means, in effect, a return to the status quo of January 1, 1957 with demobilization of volunteer and reserve troops, and a general withdrawal of troops to their permanent stations.

Military advisors supplied by OAS members will supervise the truce pending arrangements for a more definitive settlement of the boundary question, which should be vigorously pursued.

It is possible that new incidents may occur, and that the settlement will be domestically unpopular. This could result in changes in the unstable government of Honduras.

Substantial progress has been made however, and the OAS, with which we have fully cooperated, has shown speed and determination in handling this threat to Inter-American Peace.[3]

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[1] Source: Department of State, Central Files, 615.1731/5–1057. Official Use Only.

[2] In telegram 425 from Managua, May 10, the Embassy stated that President Luis Somoza informed Ambassador Whelan that he was generally satisfied with the terms of the truce agreement. The Embassy added, however, that it anticipated there would be charges and countercharges from both Honduras and Nicaragua. (*Ibid.,* 615.17/5–1057)

[3] On July 21 Honduran Foreign Minister Estéban Mendoza and Nicaraguan Foreign Minister Alejandro Montiel Arguello signed an agreement to refer the boundary dispute to the International Court of Justice.

83. Memorandum From the Deputy Director of the Office of Middle American Affairs (Stewart) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, June 10, 1957.

SUBJECT

Honduran Political Situation

Ambassador Willauer reports an upsurge of political activity in Honduras following the announcement that Constituent Assembly elections are to be held September 21. He feels that the holding of free elections is of great importance but he fears that a plot may be hatched by the military to prevent this. He recommends that he come to the Department in a few weeks for consultation on the situation.

The attached Memorandum[2] discusses the information in Ambassador Willauer's Despatches 309 and 312 of May 31 and June 3.[3] The political background and outlook are also discussed along with recommendations for U.S. action. The principal points are: The possible re-emergence of General Carias' political power through an alliance with the Military. The recent Velasquez' "plot" may give the military an excuse to arrest "suspects". Villeda's popularity and confidence in his ability to become President were evident during his recent visit to Honduras; he is seeking a deal with the Nationalists. The Ambassador has suggested the importance of drafting a good electoral law and the possibility of using the Civil Defense structure and the emergency fund to supervise elections. The Junta's authority is not believed strong but it may continue to govern on sufferance. Political rivalries are so deep-seated that a compromise between parties in the national interest may be difficult. The role of the military in the political struggle is still undefined but Minister of Defense Lopez is being watched with increasing concern by those who fear a military dictatorship. An analysis of the political parties shows that the Liberals have the greatest popular support but the least potential military support. The Nationalists have the greatest potential military support but are a poor second in popularity. The present atmosphere of uncertainty favors the Communists who have increased their potential under the Junta but who still are not a decisive factor. Honduras' fundamental political problem is how to achieve responsible, constitutional government along democratic, representative lines and whether this can be achieved through free elections.

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[1] Source: Department of State, Central America Files: Lot 61 D 110, Chronological File. Confidential. Initialed by Rubottom indicating his approval.

[2] Not printed.

[3] Neither printed. (Department of State, Central Files, 715.00/5–3157 and *ibid.*, 601.1511/6–357)

Recommendations:

1) The U.S. inform Villeda that our policy of non-intervention precludes an announcement that we will not recognize a government which is not freely elected.

2) We should scrupulously avoid statements or actions which could be interpreted as intervention in Honduras' internal affairs.

3) We should maintain regular contact with all political elements and take occasion to express our interest in democratic, responsible government and our policy of non-intervention.

4) We should concur in Ambassador Willauer's request for consultation, his visit to be timed for early or mid-July.

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84. Memorandum of a Conversation, Department of State, Washington, June 11, 1957[1]

SUBJECT

Honduras' Political Situation; Boundary Dispute; Smathers Fund Loan

PARTICIPANTS

Honduran Ambassador Villeda Morales[2]
ARA—Mr. Rubottom
MID—Mr. Warner

The Ambassador stated that he wanted to exchange views with Mr. Rubottom following his recent trip to Antigua, Guatemala and Tegucigalpa. First, he expressed Honduras' gratification at the signing of the $3 million Smathers Fund Loan Agreement on May 31. He mentioned that by happy coincidence the announcement of the signing arrived in Honduras about the same time he himself did.

Mr. Rubottom expressed his satisfaction that conditions had permitted the making of this loan which will contribute to Honduras' economic progress. It was to be regretted that the circumstances existing at the end of April were such that the postponement of the loan had been necessary. The Ambassador agreed that granting a loan for economic development would have seemed out of keeping in late April when a million "pesos" a week were being spent on military operations.

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[1] Source: Department of State, Central Files, 815.10/6–1157. Confidential. Drafted by Norman E. Warner.

[2] Dr. Ramón Villeda Morales.

The Ambassador stated that at the Antigua meeting the Central American countries definitely went on record renouncing force as a means for the solution of their problems; he felt that this was one of the most important results of the meeting. He referred to the current meetings of the OAS Ad Hoc Committee and expressed the hope that the problem between Honduras and Nicaragua can be settled "within the family". However, he stated that if this fails, he believes it would be best to go to the International Court of Justice.

Summarizing the political situation in Honduras, the Ambassador stated that the military Junta has decided firmly in favor of holding elections and he mentioned that the Minister of Defense (Lopez) assured him that there would be free elections. An electoral committee is being formed with Archbishop Turcios as Chairman to set up and supervise the electoral machinery. The emergency fund collected at the time of the border dispute might be used to finance this committee's operations. The Ambassador referred to the possibility of a single slate of candidates in these elections. He indicated that he had been given full powers by his party leaders to choose candidates for this slate whom he believes to be competent regardless of party. His personal plans are not yet clear but he may run his wife as a candidate while he retains the Ambassadorship here.

Mr. Rubottom expressed the hope that Honduras will be able to restore responsible, constitutional, institutional government so that she can concentrate her energies on problems in the fields of education, public health and economic development. He stated that he was not in a position to advise the Ambassador regarding his personal problem of deciding how to participate in this process. Mr. Rubottom told the Ambassador he looks forward to further exchanges of views with him and he mentioned that Ambassador Willauer will probably be coming to the Department for consultation.

85. Memorandum of a Conversation, Department of State, Washington, August 2, 1957[1]

SUBJECT

Honduran Ambassador's Farewell Call[2]

PARTICIPANTS

Ambassador Villeda Morales
ARA—Mr. Rubottom
MID—Mr. Warner

The Ambassador stated that he had enjoyed his recent trip to Puerto Rico to participate in the festivities marking the fifth anniversary of the constitution. He was impressed by Puerto Rico's economic and social progress, its self-help housing program, the number of Puerto Rican migrants to the U.S., the new hotels and the city of San Juan. He gave Mr. Rubottom a copy of a manifesto he had prepared on this occasion.

Mr. Rubottom stated that since he was leaving on Sunday for Mexico and Buenos Aires he would take this opportunity to express his pleasure in having known the Ambassador and his hopes for the future both for Villeda personally and for Honduras as a nation. He repeated our belief that political stability and responsible government are the cornerstone of economic progress. Mr. Rubottom said he feels that Honduras is poised on the verge of important progress if political conditions permit. Private investors, the Export Import Bank, the IBRD and IMF stand ready to assist in this process if the political climate is favorable.

Communist Activities.[3]

Mr. Rubottom expressed our concern over reports of Communist activities on the north coast and other sections of Honduras. The Ambassador said that Liberal leader Francisco Milla Bermudez recently talked about this problem with north coast labor leaders and issued a manifesto. He will send us a copy. He said both Lozano's and Galvez' governments had had Communists in them and he believes that only a government with popular support can cope successfully with the Communists. In this connection he recommended to Mr. Rubottom a new book on Communism in Latin America written by Robert Alexander which was reviewed in the *Washington Post* on July 21.

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[1] Source: Department of State, Central Files, 715.00/8–257. Confidential. Drafted by Norman E. Warner and initialed by Rubottom indicating his approval.

[2] Tiburcio Carías, Jr., was appointed Honduran Ambassador to the United States on September 13. He presented his credentials on October 15.

[3] Under cover of a letter of July 3, Chargé Pool transmitted to the Bureau of Inter-American Affairs a report on Communist activities in Honduras. This report, dated July 2, states in part that "this increase in Communist activities . . . is a coordinated campaign rather than a series of individual successes. This campaign is now gathering steam; unless it is stopped, we can look for further increases in Communist activity." (Department of State, Rubottom Files: Lot 59 D 573, Honduras, 1957)

United States Help for Free Elections.

Villeda stated that the U.S. could help to assure free elections in Honduras by merely making suggestions to the right people in Honduras. Mr. Rubottom said that this would run contrary to our policy of non-intervention. He believes that this is a very good policy although he noted that this does not mean we feel the same way toward every government. Villeda said he understood and did not mean to imply U.S. intervention but only that the U.S. use its moral influence like an older brother. He referred again to an idea he had outlined before,[4] that the U.S. not accept an Ambassador from Honduras pending the outcome of the political contest. Mr. Rubottom said that this would be a matter for Honduras alone to decide.

Assassination of Castillo.[5]

Villeda fears that the Guatemalan military will take over. He said he went to school in Guatemala with interim President Gonzalez whom he regards as a sound and able man. However he realizes that new elections must be held and that Gonzalez cannot be a candidate. He thinks that Guatemala is very difficult to govern because of divergent elements such as the military, the conservative land owners, the strength of clerical influence, and the 2 million uneducated Indians. He feels that the political uncertainty in Guatemala will have unsettling effects in Honduras and El Salvador. He believes that the military remain the dominant factor now as they have been for many years. He cast doubts on the idea that Castillo was the victim of a Communist plot and hinted at military involvement by referring to the assassination of Colonel Arana[6] about 1948 in the same context as Castillo's assassination. Villeda thinks that Guatemala needs a strong civilian as President but mentioned only one person specifically: Guatemala's Ambassador to Colombia, who had been a rival to Arevalo for President following Ubico's overthrow. Villeda did not give his name. Villeda said that Castillo seemed almost a prisoner of the military when he visited him in late May; he remembered that soldiers stood very close guard on the President even while he was eating.

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[4] In a memorandum of conversation, dated July 10, Villeda stated that he would recommend to his government that it withhold appointment of a new ambassador until after the scheduled elections in September. Villeda stated further that "He felt this might be desirable as an indicator of the incomplete status of Honduran-U.S. relations pending the outcome of the political campaign. Mr. Rubottom stressed our policy of nonintervention and our parallel policy on recognition which does not use recognition as an indication of what our opinion may be regarding the goodness or the badness of another government." (*Ibid.*, Central America Files: Lot 61 D 110, Political—Local)

[5] President Carlos Castillo Armas of Guatemala was assassinated in Guatemala City on July 26. For documentation, see Documents 56 ff.

New Electoral Law.

Villeda left a copy of this law and commented that it is "more or less satisfactory. If elections are "50% free" he says the Liberals can win control. He remarked to Mr. Warner privately that the use of the 1950 census as a basis for determining representation and the ratio of one deputy per 30,000 inhabitants instead of 25,000 was objectionable both to the Liberal and to the Nationalist Parties.

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[6] Francisco Javier Araña, Chief of the Guatemalan Armed Forces in 1948, was assassinated on July 18, 1949.

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86. Memorandum From William A. Wieland of the Office of Middle American Affairs to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, September 17, 1957.

SUBJECT

Honduras: General Calm on Eve of Elections

General

With elections only five days away (they will be held Sunday, September 22) the Liberals appear to have a clear edge in popularity and are expected to win a majority in the Constituent Assembly if the ballots are cast and counted with relative freedom and honesty. The governing Junta itself seems to be genuinely impartial and has forbidden electioneering by public employees. However, the Junta's ability to enforce compliance is less than complete. Traditionally, outside the immediate area of the capital power has centered in Commandantes responsible directly to the President. Many of these Commandantes owe their loyalty now to the military rather than to the Junta. Thus the military (particularly the Ministers of Defense and Government) may be the decisive factor in determining how free the elections will be. Again, the words and actions of the military so far are reassuring, although they reportedly would not like to see a Liberal victory. Our Embassy reports there is strong reason to suspect that the Nationalists and the military are in cahoots to rig the elections against the Liberals and that the best we can hope for is that the elections will not be so blatantly rigged but that they can be accepted both inside and outside the country. The Embassy feels that if the elections are blatantly rigged the Liberals will react by calling a work stoppage, a general strike, or by resorting to violence.

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[1] Source: Department of State, Central Files, 715.00/9–1757. Confidential. Drafted by Warner. Rubottom initialed the source text adding the following notation: "a good paper."

Parties

Each of the three political parties (Liberals, Nationalists, Reformists) has entered its own slate of candidates for Constituent Deputies. An attempt to form a coalition ticket between Nationalists and Reformists foundered on the insistence that former President Carias' son Gonzalo be accepted by the Reformists as Presidential candidate-apparent (it is generally assumed that the Constituent Assembly will elect a new President). One independent slate will be run; a group of workers in the North Coast Department of Atlantida have obtained the necessary 1000 signatures for an independent slate. This slate has several well-known Communists. A similar attempt to form an independent slate in Tegucigalpa (sponsored by Communists and fellow-travelers) failed. Our Embassy reports that Communism is not a major factor in the campaign although the Nationalists are attempting to smear the Liberals with this label (as they did in 1954).

The Military

The Embassy emphasizes that power still resides in the military and that any government in the future will have to take the military into account. The military have it in their power to control, annul or disregard the elections, if they choose, but so far they have been generally content to play a passive role in the body politic, intervening only when their own interests are directly concerned. Despite indications of anti-Liberal feeling among the top military they may feel that the most prudent course would be to remain apart from the political struggle. Liberal leader Villeda Morales has taken pains to reassure the military that they will not suffer if he is elected.

Another factor arguing for the military to steer a neutral course is the possibility that some younger officers and many of the rank and file are pro-Liberal.

Outside Influence

The Embassy reports that the only apparent external factor to watch is Colonel Armando Velasquez, "the perennial Honduran revolutionary . . . [2] obsessed with the idea of gaining power." He is now in exile in Guatemala. The Embassy reports that he has no apparent support inside Honduras. . . . possible Dominican support for Velasquez but there is no indication that the Dominicans have "gotten to" any other Hondurans of importance. MID does not feel that Dominican influence will be an important factor in the elections.

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[2] Ellipsis in the source text.

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87. Editorial Note

Elections for the Honduran National Constituent Assembly, held September 22, resulted in victory for the Liberal Party. It won 37 seats, the Nationalists gained 18, and the Reformist Party 3. Documentation on this subject is in Department of State, Central File 715.00.

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88. Memorandum of a Conversation Between the Chargé in Honduras (Pool) and the Honduran Ambassador (Villeda Morales), Tegucigalpa, October 3, 1957, 10 a.m.[1]

At my request I called on Dr. Villeda today at his house at 10 a.m. Dr. Villeda received me very cordially, said he was very busy these days with all kinds of requests from all kinds of people (he said he sent them all to the Liberal Party National Committee), but that he would always have time to talk with representatives of the Embassy.

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[1] Source: Department of State, Central Files, 715.00/10–457. Confidential. Drafted by John C. Pool. Transmitted under cover of despatch 130 from Tegucigalpa, October 4. (*Ibid.*) The substance of the conversation was also transmitted to the Department in telegram 134 from Tegucigalpa, October 3. (*Ibid.*, 715.00/10–357)

Meeting of the Assembly

I told him that I had enjoyed very much listening to his radio speech Monday afternoon, and wondered whether he would be good enough to give me a general outline of his plans in the Constituent Assembly. He said the organizing meeting of the Assembly would take place about October 17 under the chairmanship of Flores Gomez,[2] as established by the electoral law. Villeda would probably be elected President of the Assembly. On October 21 the Assembly would meet and issue Decree No. 1 declaring itself in session. The Junta would present its resignation to the Assembly, and he would immediately appoint a committee to consider it. The Assembly would not accept the resignation, and would ask the present two Junta members to continue for the time being as the executive authority. He stated that he had thought of adding one civilian to the Junta, but he did not think the Militares would like it very much, and he had accordingly decided to leave things exactly as they are for the present. He implied that the present Cabinet would continue on as well.

Drafting Constitution

Dr. Villeda said that there were already in existence several draft constitutions, that it only remained for them to be put together—taking some from one and some from another—and that the process could be completed in from four to six weeks. In his view the Constitution should be a rather short document, many things which are in the drafts now should be supplementary laws rather than in the basic charter. He expressed the view that the Constitution itself should contain the basic features of election laws for any election at any time. In reply to my query he said the proportional representation feature should be retained. Otherwise, as in the case of September 22, one party would have a complete monopoly of the seats, and this would be a bad thing for the country. I expressed agreement with this view.

Naming of President

Dr. Villeda said that after the Constitution was adopted the Constituent Assembly would name him President for a full term. He said that in theory he still believed, as did the Liberal Party, that the President of the country should be elected directly by the people; but that in the present instance there were various factors which made such impractical for the particular case upcoming. In the first place, elections were expensive. Also, he said that the Cariístas had decided that Gonzalo was no use as a presidential candidate, they do not have time to build up another man in the public eye, they did not have any money, and they would probably end up by not going to the polls at all—as they did on October 7, 1956. The Cariístas now realize that they are hopelessly outnumbered in votes, and their only chance was to resort to violence. He is convinced that if they had another election the Cariístas would return to their old strong-arm methods. The Reformistas would not go to the polls again—their basic weakness now being apparent to all. Furthermore, everyone knew in advance the result of such an election—namely that he, Villeda, would be chosen. So he was something like the bride—no matter how much she loved the man she would prefer to go to the altar and do the thing right. But not this time. He said that the military were in agreement with the view that the Assembly should name him full-term president.

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[2] Raúl Flores Gomez, Minister of Interior and Justice.

Accordingly, the Assembly would name him President by decree. He added that the decree might say in one of the "whereas" clauses in the Preamble that Villeda had been elected President in 1954, since he now had conclusive evidence that the elections of that year had been fraudulent.

Comment:

Villeda did not say that he would be declared President *as from 1954,* as per the current rumours in the street. I gather that he simply wanted to have the statement made for the record.

I think there is probably something in what he says about the Cariístas in the next election. Gonzalo made a very poor showing, and he is not accepted by a great many people in the Nationalist Party itself. Apart from their half-hearted efforts to build up Gonzalo, the Nationalists do not have any indicated candidate. It is quite clear that they have no money—contributions are only made to one who has a good chance of winning. It is quite possible that another election would be characterized by violence—whether it is run by the military or not. I also think it most likely that the Reformistas will not go to the polls again since they have nothing in a practical way to offer to the electorate.

Villeda's Prospective Tour as President-Designate

Villeda said that he did not want to take over right away. Once he was designated President he wanted to make a tour of the United

States and Central American countries. He said he wanted to do this before he had taken office, because afterwards there would be too much protocol about such a tour. While in the United States he would seek financial assistance from the USG in the form of outright gifts "like you have given to Guatemala and other countries"—none of this business about loans, Smathers Funds, etc. He also mentioned the Ford Foundation, the Rockefeller Foundation, the Pan American Union, and the Inter-American Defense Board as sources of aid. He said for instance that the Inter-American Defense Board should build a highway across the country from Puerto Cortés to San Lorenzo as a strategic measure complementing the Panama Canal. He did not particularly indicate what assistance he expected from the PAU but I gathered he meant technicians. He said his people needed to be educated, health conditions must be greatly improved, "we will build roads all over the country" etc. He said that the relationship with the U.S. must be complete (I am not entirely sure what he meant . . . .

He went on to say that the country already has a 14 million Lempira budget deficit, and implied it would be more by the time he took over. He said there were various ways of saving money—for instance, Honduran representation abroad. There was no need to have an Embassy in London or Paris or Rome—those countries are not important to Honduras—the Ambassador to Spain could also be representative at the Vatican etc. (the facts of life in the way of political patronage do not seem to be appreciated by him yet—he will need these jobs for his spoils-hungry party followers). He went on to add that the consular service should be reorganized. He said that whenever anybody was sick and wanted to go to a U.S. city for treatment the practice had been simply to name him Consul there.

People in His Government

Villeda said he thought he would make Roberto Lazarus Ambassador to Washington—"Doctors make good diplomats, you know". We both laughed. He went on to observe "you know in the Nicaraguan crisis there were two factors—the military and diplomacy. The military did not do very well, but diplomacy up there did". I merely observed that Lazarus was a very pleasant person, had an attractive wife, and both spoke excellent English. He said his government would be composed of all parties, and mentioned Gabriel Mejia as one he would like to keep. He said "I have told Gabriel I would like to have him with me, that it might be difficult for me to sell him to my Party, but that I still wanted him". He said some government reorganization was needed—the Ministry of Finance and Economy should be made into two ministries, Finance and Economy. Natural Resources should be only Agriculture, since that is all it did anyway. He also expressed the intention of enlarging the presidential office, and said that such things as tourism should be directly under it. As coffee was served he mentioned that he planned to install a coffee bar in the Presidential Palace. He told me, and he asked me that it be kept strictly confidential, that he was planning to ask Jack Agurcia to be his presidential secretary.

Comment

Villeda talked very big indeed. At no stage of the conversation did he give any indication of concern that anybody else, either inside or outside of the country, might have different ideas. He acted as if he alone were the determining factor and that no one else had anything to say about it. He said he saw nothing to prevent his plans from materializing unless he were assassinated, which he regards as a distinct possibility (the entrance to his house is always guarded by two goons). He showed no indication whatever of any awareness of the thinking of the militares as previously reported. He apparently thinks he can write his own ticket both as far as his own Party is concerned and with the military. It does not seem to have occurred to him that his proposed tour of the U.S. as President-Designate might not be entirely welcome to us, or that we may not produce aid in the form and quantity he expects. . . . It would appear that the good Doctor's education is not yet complete.

John C. Pool

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89. Telegram From the Secretary of State to the Embassy in Honduras[1]

Washington, October 4, 1957—7:28 p.m.

84. Re your 134[2] Department concurs your views regarding need to clarify to Villeda prospects of additional U.S. economic aid for Honduras and caution him against exaggerating such prospects in his plans and making over-optimistic statements. Rubottom pointed out to Mejia[3] Wednesday that IBRD and ExIm Bank policies of financing only foreign exchange costs is well known. Development Loan Fund still unknown factor because criteria for use remain to be

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[1] Source: Department of State, Central Files, 715.00/10–357. Confidential; Priority.

[2] Dated October 3. (*Ibid.*)

[3] Gabriel Mejia, Minister of Economy.

determined. We believe Honduras should exercise strict control over budgetary and fiscal planning; take appropriate steps to save exchange for capital goods imports; and foster private foreign investment. Rubottom expressed opinion Honduras should start on development projects which have already been studied and are ready for execution (such as highway construction). He made no commitment of any kind to Mejia group.

Villeda's confidence that constituent assembly will name him president contrasts sharply with Armed Forces attitude as expressed by Galvez in 12 page letter to Agurcia[4] who transmitted contents to Willauer by phone. Letter substantially agreed with Galvez views reported Embdes 125.[5] According Galvez armed forces will retain control through Junta which acting as its agent until inauguration president chosen popular election and not by assembly, thus fulfilling commitment to Honduran people. Current Junta submitting resignation effective October 21. Armed Forces will name new Junta to operate until duly elected civilian government takes charge.

Dulles

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[4] Nicolas Aqurcia, Counsel to the Honduran Military Junta.

[5] Dated September 30. (Department of State, Central Files, 715.00/9–3057)

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90. Editorial Note

The Honduran Constituent Assembly, which convened on October 21, decided to appoint a President of the Republic rather than hold separate presidential elections. On November 15, the Assembly elected Ramón Villeda Morales President of Honduras. Villeda Morales took office on December 21 under a new national constitution which entered into force on that day. Documentation is in Department of State, Central File 715.00.

NICARAGUA

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND NICARAGUA[1]

91. Memorandum From John L. Ohmans of the Office of Middle American Affairs to the Director of the Office (Newbegin)[2]

Washington, January 17, 1955.

SUBJECT

Nicaraguan arms requests

Planes:

On April 20, 1954 Nicaragua informally requested purchase of up to 12 F–47 fighters and, up to 4 B–25 fighters. The Department answered on April 23 that neither F–47 nor B–25 aircraft were available. The Air Force suggested F–80 fighters and B–26 planes.

Ambassador Sevilla Sacasa was informed on May 28 that the United States was in a position to make available on a direct purchase basis 8 F–47 aircraft at a price of approximately $25,000 each. Three F–47's arrived in Managua on June 17.

On July 17 the Nicaraguan Government expressed the desire to purchase 7 F–51 planes. Approval by the Department of State was delayed until September 2. At about the same time (on August 25), Nicaraguan President Somoza sent a communication to Ambassador Whelan saying that Sweden offered 25 of their planes for sale, it wished to take advantage of a splendid purchase offer, and he would greatly appreciate it if the Swedish planes were sold to the Nicaraguan Government without any objection on the part of the United States Government.

On September 3, Counselor of the Nicaraguan Embassy Quintana told me his Government was grateful for the information that it would be allowed to purchase P–51 aircraft from a private concern in California. He added, however, that Nicaragua wanted to buy the Swedish planes. On September 20, I clearly informed Dr. Quintana that (a) the United States was agreeable to the purchase by Nicaragua of P–51 aircraft from the American supplier in Burbank, California, (b) the United States cannot interpose any objection of the purchase of planes from Sweden, pointing out that there would be no possible way for the United States to do so, and that it was strictly a matter for Swedish and Nicaraguan Governments to decide.

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 1369 ff.

[2] Source: Department of State, Central Files, 717.5622/1–1755. Confidential.

In summary, with respect to fighter aircraft, the United States sold 3 F–47 planes to Nicaragua. The United States offered to sell F–51 planes to that country, but Nicaragua decided to buy a larger supply in Sweden.

Arms:

On May 24 the first shipment of armaments to Nicaragua under the Military Assistance Agreement was made by air. The remainder of the shipment, total value, ½ million dollars, was sent subsequently by ship on July 17.

In June, 1954, the Nicaraguan Government informally presented a list of armaments desired over a period of 5 years and wished to obtain an export license as soon as possible and an indication of available prices of a large quantity of arms. In January, 1954 the Army gave the Department a list of arms available and the prices which would be charged. This list has not been communicated to the Nicaraguan Government. On December 2 the Nicaraguan Government formally requested agreement for sale from the United States surplus stocks 7,000 Garand rifles, 7 million cartridges, caliber 30, 4–105 millimeter Howitzers. On December 22 the Department of State informed the Department of Defense that it approved meeting this request from a political and economic viewpoint.

Attached is a summary of licenses issued for the export of arms to Nicaragua during the months of June, July and August 1954.[3] I am endeavoring to obtain a similar list of licenses granted for the September–December period.

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[3] Not printed.

92. Memorandum of a Conversation, Department of State, Washington, January 20, 1955[1]

SUBJECT

Visit of Ambassador Sevilla Sacasa of Nicaragua

PARTICIPANTS

ARA: Edward J. Sparks
AR: E.A. Jamison
MID: John L. Ohmans
Ambassador Sevilla Sacasa; Dr. Quintana.

The Ambassador called at his request and immediately launched into a discussion of the Costa Rican case before the OAS.[2] He reported that Nicaragua promptly and enthusiastically agreed with the suggestion of the investigating committee to institute a buffer zone along the Costa Rican-Nicaraguan border.

The Ambassador also delivered a note to the Department requesting the United States to sell immediately to Nicaragua four F–51 fighter planes as had just been done to Costa Rica. He said the Costa Rican pilots already had violated the Nicaraguan frontier on their first day of action. He believed this was deliberate. In view of the great distrust his government had of Figueres' actions and the probabilities of action against Nicaragua, his government was very anxious to obtain an equal number of planes to combat the Costa Rican F–51's, if that should be necessary.

The Ambassador pled at length and with great emotion along the lines that U.S. friendship with Nicaragua was at a test. He said that this was truly an hour of fear in Nicaragua and President Somoza, especially, needed the planes for protection. He added that Nicaragua did not want these planes as a gift; it was ready to buy them, but it wanted them on the same terms which Costa Rica received.

Mr. Sparks was silent during most of this long impassioned discussion, but finally asked the Ambassador whether he truly believed what he had just said. The Ambassador did not answer clearly. Mr. Sparks added that he found it difficult to believe that Figueres would confuse the issue at this stage by flying the planes over Nicaraguan territory. He asked the Ambassador how many planes Nicaragua had for its own protection; again he received no clear answer, but the Ambassador said that the Department knew Nicaragua's military strength as well as he did.

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[1] Source: Department of State, Central Files, 717.5622/1–2055. Confidential. Drafted by Ohmans and initialed by Sparks indicating his approval.

[2] For documentation on the January 1955 attempt to overthrow the government of Costa Rican President José Figueres and the efforts of the Organization of American States to resolve that conflict, see vol. VI, Documents 172 ff.

After more emotional discourse on Nicaragua's need for an equal amount of air strength for protection, Mr. Sparks said that he would see that the request was given prompt consideration. He promised to inform the Ambassador shortly of the response to this request.

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93. Memorandum of a Conversation, Department of State, Washington, March 30, 1955[1]

SUBJECT

Nicaraguan-Costa Rican Relations

PARTICIPANTS

Ambassador Sevilla Sacasa, Nicaragua
Dr. Quintana, Counselor of Embassy
ARA—Mr. Henry Holland
MID—Mr. John L. Ohmans

The Ambassador called at his request and reported that Nicaraguan-Costa Rican relations were proceeding smoothly and that the OAS Commission, recently set up, was working satisfactorily. He referred to a few minor outstanding problems; among them Costa Rica's desire to obtain the right for LACSA planes to land again at Managua. He felt that problem would be resolved very shortly. The Ambassador did not have much regard for the recent actions of Costa Rica's Foreign Minister, Mario Esquivel, who, he felt, was not contributing to friendly relations between the two countries and he also said that Figueres had foolishly made a public statement that he would have nothing to do with the dictator, Somoza.

Mr. Holland displayed surprise and some dismay over that news, and asked the Ambassador whether he could send him a copy of the statements made. The Ambassador said he would.

Another problem in the relations between the two countries involved the person who had taken asylum at the Costa Rican Embassy in Managua, and here again the Ambassador expressed the belief that arrangements would be made soon for the person's release.

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[1] Source: Department of State, Central Files, 617.18/3–3055. Confidential. Drafted by Ohmans. Initialed by Holland indicating his approval.

As of possible interest to Mr. Holland, the Ambassador brought in a picture taken in Cuba at the Finca "La Chata" of Cuba's ex-President, Prio Socarras, showing the Cuban with Romulo Betancourt, Figueres and Arevalo.[2] The Ambassador considered that this picture was ample proof of the revolutionary and leftist designs, especially of Costa Rica's President, Figueres. Ambassador Sevilla mentioned that he had talked with Ambassador Hill and had given him a copy of Arevalo's book, published recently, entitled "Guatemala, La Democracia y El Imperio". He and Mr. Holland agreed that Ambassador Hill has a wide knowledge of affairs in Central America on the basis of his experiences in Costa Rica and El Salvador.

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[2] Juan José Arévalo, President of Guatemala, 1945–1951.

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94. Editorial Note

Vice President Richard M. Nixon visited Nicaragua February 19–21 as part of a tour of Central America and the Caribbean. He was accompanied by Assistant Secretary Holland and John C. Dreier, United States Representative to the Council of the OAS, as well as members of the Vice Presidential staff. Although Nixon and Holland met with President Anastasio Somoza during this visit, no memorandum was made of that conversation according to a letter of April 27 from Holland to Ambassador Whelan. (Department of State, Holland Files: Lot 57 D 295, Nicaragua) Documentation concerning Nixon's visit to Nicaragua is *ibid.,* Central File 033.1100–NI.

95. Memorandum From Park F. Wollam of the Office of Middle American Affairs to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, April 27, 1956.

SUBJECT

Refusal of Nicaraguan Request for P.L. 480 Purchases of Surplus Commodities[2]

In view of the protest by Ambassador Sevilla Sacasa, this memorandum is submitted to amplify the brief discussion of the problem at the MID/P staff meeting with Mr. Holland on April 26. This is not the official record of the proceedings, but is a personal and general interpretation of what occurred. Minutes of the proceedings will be available later.

In January, 1956, the Nicaraguans requested permission to purchase quantities of white corn and red beans from CCC stocks. Through normal channels it was found that the CCC had no stocks of these commodities. The Nicaraguans were informed of this by note and it was suggested that they purchase through ordinary commercial channels. El Salvador had been given a similar informal reply to the same request.

Following this action, the Nicaraguan Minister of Economy[3] was in Washington. The Nicaraguans claim that he was invited by someone at the Department of Agriculture to submit a request for the corn and beans under the P.L. 480 Title I Program. While there were no stocks available, the Nicaraguans were told that some corn and beans could be declared surplus and that they could purchase other commodities at the same time.

The Nicaraguan Embassy submitted notes requesting corn, beans, butter, lard, wheat flour and powdered milk on February 20 and 21. The Nicaraguans and State received the impression that the sale of surpluses was the desirable aspect of this request and that there would be no difficulty with P.L. 480 requirements.

At the first meeting of the Inter-Agency Committee on Surplus Disposal,[4] however, various questions were raised concerning the necessity for the program, the question of usual marketings, Nicaraguan over-expansion in cotton, and the need for additional development funds resulting from local currency sales. Action was postponed pending receipt of more information from Nicaragua, which was somewhat delayed because of the Easter vacation period affecting the Ministry of Economy. It was obvious that the majority of the IAC members considered the program to be of very marginal utility unless there were urgent overriding policy consideration.

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, P.L. 480, Nicaragua. Confidential. Also addressed to Lyon.

[2] For text of P.L. 480, the Agricultural Trade Development and Assistance Act of 1954, see 68 Stat. 454.

[3] Enrique Delgado.

[4] President Eisenhower established the Inter-Agency Committee on September 9, 1954, to coordinate the administration of P.L. 480. The Committee, headed by White House Special Consultant Clarence Francis, consisted of senior officials from the

The program was turned down at the Inter-Agency meeting on April 17 for technical reasons as follows:

1. *Problem of usual marketings and displacement of normal commercial channels:* It was pointed out from the Minister of Economy's own statements that Nicaragua intended to make the corn and bean purchases regardless of whether or not a P.L. 480 program was concluded, and that the Government made no distinction between imports through usual commercial channels and purchases required under a P.L. 480 agreement.

After analyzing usual purchases of the other commodities requested, it was obvious that the amounts asked for under P.L. 480 would largely displace the usual commercial marketings of the United States, Canada and perhaps those of other friendly nations.

2. *Expansion of cotton production in Nicaragua:* A number of the committee members felt that a primary reason for the possible necessity of the special aid was the unlimited expansion in Nicaraguan cotton production under the umbrella of U.S. price support. The money-making cotton production had displaced corn and bean crops. It was felt that P.L. 480 aid would probably slow Nicaraguan re-conversion to its normal self-sufficient status in corn and bean crops. They did not feel that there could be any assurances that Nicaragua would take steps to control cotton production even if P.L. 480 sales were allowed.

3. *Financial condition of Nicaragua:* The principal reason for the Nicaraguan request is an anticipated shortage of dollars during the next two or three years because of anticipated decreases in dollar revenues from coffee and cotton. The Inter-Agency Committee did not feel that this in itself was justification for the program, especially in view of the announced intention of making dollar purchases anyway.

It was pointed out that the Nicaraguans had very proudly announced at various times that they were number one in credit payments for Latin America. There have been favorable dollar balances of payments every year including 1955. (The last Nicaraguan estimate was $169,900 although early 1955 estimates were about a half million.) It was also pointed out on the basis of information from the Ministry of Economy that the Nicaraguan government has had budget surpluses and that government revenues were reaching new highs. Despite possible difficulties from reduced coffee and cotton income in 1956–57, the government was planning an in-

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Departments of Agriculture, Commerce, the Treasury, and State, the International Cooperation Administration, and the Bureau of the Budget.

creased budget for 1956–57 on the grounds that any possible deficits could be met from previous surpluses. On the basis of this information the IAC could not see an emergency situation that would justify displacement of normal commercial marketings, although it was pointed out that perhaps help at this time would prevent future difficulties that might require more aid.

4. *Use of funds available from local currency sales:* The attitude was taken by ICA that while useful programs could be found for the loan of local currencies, Nicaragua was not a country in which it was felt that extra *soft* loans were necessary for policy considerations or economic development purposes.

5. *Possible P.L. 480 Programs in other similar circumstances:* State took the attitude that if Nicaragua were successful in obtaining P.L. 480 aid, it could reasonably be expected that other Latin American nations would wish similar programs under the same general (possibly marginal) conditions, since several countries could be faced with shortages of dollars. It was necessary, therefore, to establish a clear-cut policy with the action toward Nicaragua. The IAC presumably thought that there was no justification for setting a precedent for displacement of normal marketings in Nicaragua or elsewhere without a real emergency or over-riding policy considerations.

Comment:

While the Nicaraguans apparently take this refusal as a discriminatory action (especially in an election year) it should be pointed out that the refusal was based directly on the provisions of the law covering P.L. 480 loans. It is thought that President Somoza might be especially sensitive on the subject during an election year since he stresses the mutual friendship between Nicaragua and the United States as a strong point in his electioneering, and he is usually anxious to have demonstrable tokens of U.S. affection.

The IAC pointed out that should conditions change, the Nicaraguan request could be reconsidered. The most regrettable aspect of this situation in my mind was that the Nicaraguans were invited (or at least so they claim) to make this request, after they had been already informed that no surplus white corn or red beans were available, and that a decision was delayed. Both Nicaragua and State were under the impression that there were no obstacles in the way of the program until the first Inter-Agency meeting.

It would appear, however, that the IAC had ample justification for refusing the program on technical grounds, since there are no emergency considerations justifying displacement of normal market channels, which would be subject to severe criticism. The refusal was primarily based on the information supplied by Nicaraguan Minister of Economy who could not present a strong enough case to overcome technical difficulties presented by the law. The case of Nicaragua and of State was ably presented and actively pushed as far as possible under these circumstances by Frederick Hincke of E/

IRD, which section has the primary action responsibility for P.L. 480 programs.

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96. Telegram From the Acting Secretary of State to the Embassy in Nicaragua[1]

Washington, May 4, 1956—6 p.m.

214. Urtel 247.[2] Although type of action requested not entirely clear following is Dept's feeling with regard purchase arms by Nicaragua.

US has no objection delivery small number tanks Nicaragua and has authorized purchase in US four tanks which have already have been contracted for by GoN.

Dept sees no need for Nicaragua or any other Central American country to obtain more than approximately this number since more are not required for legitimate defense purposes. Delivery sixty tanks or any other proportionately large number to Nicaragua would undoubtedly cause alarm in neighboring republics and work against peaceful settlement regional issues still outstanding.

Dept cannot understand necessity for Nicaragua act as agent for third parties, if this implied, since there are established channels for all legitimate arms purchases. Canadians will be informed along these lines.

If this not case, Dept finds difficult understand how economy of Nicaragua can stand purchase quantity tanks at same time Nicaragua urgently requesting Public Law 480 sales by US in view anticipated dollar shortages this year. This request now being reconsidered because of emphasis on need by Nicaraguan Embassy here.

You may at your discretion inform Somoza that US would view with concern arrival sixty tanks Central America, that Dept does not understand need for Nicaragua to act for third parties and that this could cause unfavorable international comment. You may also say that large expenditures arms this time may jeopardize chances PL

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[1] Source: Department of State, Central Files, 717.561/5–256. Confidential; Priority.

[2] In telegram 247 from Managua, May 2, the Embassy transmitted a statement by President Somoza which reads in part: "Sometime ago our Washington embassy tried to purchase 60 Sherman Grizzly tanks from Canada." According to the telegram, Somoza stated further that Nicaragua now wished to cancel an order to buy $88,000 worth of tanks from the United States and wanted to purchase tanks from Canada instead. (*Ibid.*)

480 sales to Nicaragua. Regarding possible cancellation order four tanks Army would deduct from refund any expenses it has already incurred.[3]

Hoover

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[3] In a letter to Ambassador Whelan, May 7, Park F. Wollam reiterated the points made in this telegram. The letter reads in part: "If Nicaragua were to spend a large sum of money for tanks, which we feel are not needed for legitimate defense purposes, this would undoubtedly be taken as an indication that Nicaragua has little need for P.L. 480 sales. There is no assurance that a P.L. 480 program can be worked out anyway, but its chances would probably be negligible if Somoza buys tanks in the quantities described." (*Ibid.*, 717.561/5–756)

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97. Letter From the Ambassador in Nicaragua (Whelan) to the Officer in Charge of Nicaraguan Affairs (Wollam)[1]

Managua, May 11, 1956.

DEAR PARK: I saw Somoza on the tank deal on May 9th. We wired you that he said "O.K.". "That's the ball game."[2]

He said "I wish you would explain to the State Department that my information was that the Department would be glad to have me purchase the tanks for Israel and that I would receive ten tanks as a bonus." I asked him if the information came from Guillermo[3] and he said no, that it came from friends of Israel who were presumably quoting Israel's official representatives. In other words, Somoza's information was that he would be taking us "off the hook" and that we would be glad to see the tanks go to a friendly country fighting Communism, and that he would get ten tanks for free.

On May 8th I wrote you about Public Law 480. I brought this subject up in talking with Somoza and told him that we had just received a wire[4] that Nicaragua had been turned down, but that

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[1] Source: Department of State, Central Files, 717.561/5–1156. Confidential; Official–Informal.

[2] Telegram 253 from Managua, May 10, reads as follows: "President Somoza informed sense final paragraph Deptel 214 and has abandoned the project stating 'OK that's the ball game.'" (*Ibid.*, 717.561/5–1056)

[3] Guillermo Sevilla-Sacasa, Nicaraguan Ambassador to the United States.

[4] In telegram 204 to Managua, April 25, the Department stated in part: "Interagency Staff Committee on Agricultural Surplus Disposal rejected April 24 proposed Title I, PL 480 for Nicaragua on grounds obvious displacement commercial marketings and FYI displacement food crops by cotton. End FYI." (Department of State, Central Files, 411.1741/4–1856)

Ambassador Sevilla Sacasa had immediately contacted the Department and was having the subject opened up for review. He said he had not heard from the Ambassador. The only thing he heard from the Ambassador was that the Ambassador thought that the international repercussions against the President and Nicaragua would be bad if he entered into the tank deal. I told him that, probably, the reason he hadn't heard about Public Law 480 is that it takes the Department some time to clear something like that through channels. I also said that if it was possible to get Nicaragua's request through, Guillermo would be able to handle it through Henry Holland because of the high regard the Department had for Guillermo.

Glion Curtis is writing you on the marine equipment.

Everything quiet.

Sincerely,

T.E.W.

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98. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Deputy Under Secretary of State for Economic Affairs (Prochnow)[1]

Washington, May 14, 1956.

SUBJECT

Nicaragua: Request for Limited P.L. 480 Sales

The Bureau of American Republics wishes to explore every means of assisting the Government of Nicaragua in obtaining surplus commodities in limited amounts under Title I of Public Law 480.

The background of the request is as follows: In January 1956, Nicaragua asked to make a dollar purchase of white corn and red beans from U.S. surplus stocks without reference to P.L. 480. Nicaragua was informed that there were no surplus stocks of these commodities available at that time. The Department was subsequently informed by the Nicaraguan Ambassador that the Nicaraguans were encouraged to apply again for the purchase of corn, beans and other commodities under Title I of P.L. 480.

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, P.L. 480, Nicaragua. Official Use Only.

The application was refused by the Inter-Agency Staff Committee on April 24. The ISC felt the program was not justified because of favorable dollar balances in Nicaragua up to this year, and because on most items requested there would be obvious interference with normal marketings. It was also pointed out by the ISC that Nicaragua's predicament was partially the result of over-expansion in cotton as well as very bad corn and bean crops for two years.

Nicaragua is now anticipating an unfavorable dollar balance amounting to several millions of dollars because of expected decreases in coffee and cotton prices as well as decreases in crop quantities. Upon the urgent request of Nicaraguan Ambassador Sevilla Sacasa, who re-emphasized the potential danger to Nicaragua, ARA has decided to request that the ISC consider a smaller and more limited program that would be of benefit to Nicaragua. Agriculture has asked that the Department of State make a written statement of its views.

It has been decided to limit the request for P.L. 480 sales to white corn and red beans, which, the Department is informed, can now be made available. There is no conflict with usual marketings on these items since Nicaragua is normally self-sufficient and even an exporter at times. Any recent purchases by the Government of Nicaragua may be considered as emergency efforts.

A small sales program under P.L. 480 (in the neighborhood of US $700,000) would provide funds for U.S. uses and market development, but would probably not allow any funds for development loans.

This limited program would, however, provide Nicaragua with the opportunity to make this purchase with local currency, which is the basic reason for the request. It would not set any precedent that could not be followed with other nations requesting aid under the same restricted conditions. It is not anticipated that further aid would be necessary.

The views of ARA coincide with those of the Embassy at Managua which has succinctly summarized the conditions now pertaining in a telegram which is attached as an enclosure.[2]

It is believed that this very small and realistic program merits every possible consideration, and it is hoped that the earliest action can be taken.

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[2] Not printed. Telegram 252 from Managua, May 9, urged reconsideration of the Nicaraguan request for sale of corn and beans under P.L. 480.

99. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, May 17, 1956.

SUBJECT

Nicaragua: Request for Limited PL 480 Sales

The Bureau of Economic Affairs has cooperated conscientiously with officers of the Department of Agriculture and of the Bureau of Inter-American Affairs in efforts to persuade the Inter-Agency Staff Committee on Agricultural Surplus Disposal (ISC) on two occasions to agree to a Title I, PL 480 program for Nicaragua.

When the Nicaraguan request was considered at the second ISC meeting on April 24, it became necessary to call attention to the view of the Nicaraguan Minister of Economy, expressed in a letter to the Embassy at Managua dated April 12,[2] to the effect that while grain production has been traditionally sufficient to cover domestic consumption requirements, adverse crop conditions plus balance of payments difficulties have made it necessary to ensure that (lack of) imports do not aggravate the situation. On this point the Embassy at Managua observed that the Nicaraguan Government was apparently making no distinction between "imports to be made through usual commercial channels" and purchases to be made in case a PL 480 agreement were to be concluded. Moreover, since the Nicaraguan request for a Title I PL 480 program was presented, Nicaragua has purchased for dollars substantial quantities of several of the commodities requested, notably white corn from the United States and wheat flour from Canada, and can be expected to continue to make such purchases to meet its essential domestic requirements for which it has the necessary dollars.

After careful consideration of the memorandum of the Bureau of Inter-American Affairs of May 14, in conjunction with Managua's telegram No. 252 of May 9,[3] we believe the supplemental information and arguments in favor of a limited PL 480 program for Nicaragua would be insufficient to overcome objections to the program previously raised in the ISC on two previous occasions.

Aside from the substantive objections to the Nicaraguan proposal, a further procedural difficulty has arisen to obstruct the reopening of this case in the ISC, even on the limited basis proposed by

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, P.L. 480, Nicaragua. Official Use Only.

[2] Not further identified.

[3] See footnote 2, *supra*.

ARA. Largely on account of the adoption of a new price policy for cotton exports, the Department of Agriculture is temporarily confronted by a shortage of appropriated funds with which to finance outstanding Title I, PL 480 programs to which the United States has committed itself by opening negotiations with certain countries or otherwise. Hence, it would appear untimely to request the ISC to reconsider at this juncture a program which has already been twice rejected due to a variety of objections difficult if not impossible to overcome. As a tactical maneuver, it would probably be necessary to defer action on a request to the Department of Agriculture to reopen the Nicaraguan case until additional Title I, PL 480 funds have been voted by the Congress. This might involve a further delay of as much as a month or six weeks before the Nicaraguan program could be presented to the ISC for reconsideration, even assuming that there were some assurances that the substantive objections to the program could be overcome. We question whether such a further delay would be in the best interests either of Nicaragua or the United States.

In view of these considerations, we are of the opinion that the Department should explain to the Nicaraguan Ambassador (and to the Nicaraguan Minister of Economy presently understood to be in Washington) that, in addition to the substantive objections previously raised which have prevented us from agreeing to the Nicaraguan request, the United States has unexpectedly encountered difficulties in financing the sale of the commodities requested by Nicaragua which might entail a delay of a month to six weeks before their request could opportunely be reopened. Accordingly, rather than to delay the acquisition of the commodities desired by Nicaragua by pursuing the Nicaraguan request for a Title I, PL 480 sales agreement, it is suggested that it might be more expeditious to obtain the commodities desired "on credit" by exploring the possibility of arranging with such sellers in the United States as Mr. C.B. Fox of New Orleans to handle Nicaraguan purchases under the CCC export credit program, initiated by the Department of Agriculture on April 25, 1956, i.e., after the request by Nicaragua. This suggestion has been made by representatives of the Department of Agriculture who believe that the Nicaraguan Government should have no serious difficulties in providing such guarantees as their buyers might require in order for the latter to qualify under the CCC export credit program.

It is suggested that ARA may wish to give the Nicaraguan representatives the attached press release of the USDA covering the CCC export credit program.[4]

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[4] Not attached to the source text.

100. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, May 18, 1956.

SUBJECT

Nicaragua: Request for Limited PL 480 Sales

After careful consideration of the memorandum of the Bureau of Inter-American Affairs of May 14, in conjunction with Managua's telegram No. 252 of May 9,[2] we believe the supplemental information and arguments in favor of a limited PL 480 program for Nicaragua would be insufficient to overcome objections to the program previously raised in the ISC on two previous occasions. Moreover, since the Nicaraguan request for a Title I, PL 480 program was presented, Nicaragua has purchased for dollars substantial quantities of several of the commodities requested, notably white corn from the United States and wheat flour from Canada, and can be expected to continue to make such purchases to meet its essential domestic requirements for which it has the necessary dollars.

Aside from the substantive objections to the Nicaraguan proposal, a further procedural difficulty has arisen to obstruct the reopening of this case in the ISC, even on the limited basis proposed by ARA. Largely on account of the adoption of a new price policy for cotton exports, the Department of Agriculture is temporarily confronted by a shortage of appropriated funds with which to finance outstanding Title I, PL 480 programs on which the United States has undertaken negotiations.

We are of the opinion that the Department should explain the foregoing circumstances to the Nicaraguan Government and suggest that it might be more expeditious as far as immediate requirements are concerned, to obtain the commodities desired "on credit" by exploring the possibility of arranging with sellers in the United States to handle Nicaraguan purchases under the CCC export credit program, initiated by the Department of Agriculture on April 25, 1956. (This facility was not available when Nicaragua made its original request for a PL 460 program.) This suggestion has been made by the Department of Agriculture which believes that the Nicaraguan Government should have no serious difficulties in providing such guarantees as might be required in order to qualify under the CCC export credit program.

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, P.L. 480, Nicaragua. Official Use Only.

[2] See footnote 2, Document 98.

Regarding future requirements, if an emergency situation should develop with which Nicaragua could not cope with its own resources, we would be prepared to consider a new request for a PL 480 program.

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101. Letter From the Officer in Charge of Nicaraguan Affairs (Wollam) to the Ambassador in Nicaragua (Whelan)[1]

Washington, May 23, 1956.

DEAR MR. AMBASSADOR: While we have not yet received official notice, I regret to state that the request for P.L. 480 will have to be indefinitely postponed again.

In addition to the previous problems, it now appears that Agriculture has over-expended its allotment for P.L. 480 transactions by about $80 million. It is impossible to get any action on the Nicaraguan request under these circumstances.

Additional funds are being sought, however, and it is expected that the P.L. 480 program will be back in business in a few weeks. We have informally notified the Nicaraguan Embassy here of this condition and suggested that if the economic situation in Nicaragua continues to deteriorate they might make a new application later. I also told them of the feeling that Nicaragua was not a critical area in comparison with some countries. The Ambassador and George Montealegre did not seem to be too disappointed at this turn of events. This may be because they concluded the Corinto Port loan and are expecting an Eximbank loan for their share of the Inter-American Highway cost. So, they are not empty-handed.

Various elements in the Department here greatly appreciated the Embassy's efforts in rounding up information to supply the request, and I regret that it has not worked out differently.

Sincerely yours,

Park F. Wollam[2]

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, P.L. 480, Nicaragua. Official Use Only; Official–Informal.

[2] Printed from a copy which bears this typed signature.

102. Editorial Note

On September 21, President Anastasio Somoza was shot in León near Managua. Telegram 84 from Managua, September 22, reported that Somoza had a good chance to recover, that no general uprising appeared imminent, and a state of siege had not yet been imposed. The telegram stated further that Ambassador Whelan requested the immediate dispatch of the "best available medical specialist from US and Panama." (Department of State, Central Files, 717.11/9–2256) Telegram 87 from Managua, September 23, reported that surgical teams from the United States and Panama in conference with President Somoza's son Luis and other Nicaraguan Government officials had decided to send the wounded President to Panama for further medical care. The telegram also stated that the would-be assassin, Rigoberto Lopez Perez, who was killed on the spot, was a "Communist trained in Mexico or Salvador." (*Ibid.*, 717.11/9–2356)

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103. Memorandum From the Director of the Office of Middle American Affairs (Neal) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, September 24, 1956.

SUBJECT

Nicaragua: Preliminary Survey on Possible Effects of Somoza Injury

The departure from the Nicaraguan political scene of Somoza either through death or disability would create a vacuum because of the extreme centralization of the present government, and because there is no obvious heir. The dictatorship of Somoza has been relatively moderate, but as a personal ruler he has made all important as well as most routine decisions concerning the government.

There is no regular vice president. An honorary vice president is named by the Congress when it is in session. Congress also has the theoretical authority to decide who will be acting president in the absence of Somoza. This has amounted to rubber stamping the president's choice. Col. Luis Somoza, eldest son, was the titular head of the last session of Congress. His election at this time would be more significant.

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[1] Source: Department of State, Central Files, 717.11/9–2456. Confidential. Drafted by Park F. Wollam.

Col. Anastasio Somoza, Jr., (Tachito) the younger son, is now acting Commander of the National Guard and also of the Air Force. He is said to be thoroughly disliked by most of his officers and others. Luis has recently taken more of an interest in politics, but he has generally preferred business and agriculture. In case of a complete overthrow, the entire Somoza family would be in jeopardy.

While the family, in-laws, and the "Palace Guard" will probably present a solid front as long as the President retains control, there are many strong, conflicting personal ambitions. Some of the immediate family did not want Somoza to run for the Presidency again, fearing another assassination attempt and because of their own ambitions. The strong-willed wife of President Somoza is reported to have discouraged this intrigue and to have stated that she would rather be a widow than the wife of an ex-President.

In addition to the sons, the ambitious within the family circle include Guillermo Sevilla-Sacasa, son-in-law, and Luis Manuel DeBayle, brother-in-law. Both allegedly feel that they might obtain some support as compromise candidates from opposition moderates in addition to the Somoza Liberal Party machine. Opposition stalwarts will have nothing to do with any of the inner circle, however, according to many reports.

Outside the immediate family circle there are others who are believed to wield considerable power and who might influence the situation. These include Col. Camilo Gonzalez, Commander of the special palace guard who has most of the Guardia command machinery at his disposal, as well as Col. Herberto Sanchez, Somoza's military aide, and possibly Lorenzo Guerrero, Liberal politician, or Col. Francisco Gaitan, Minister of War.

The opposition to Somoza is of uncertain force. The Conservative Party is increasingly bitter after twenty years out of power and with the prospect of another six years of Somoza following the next elections (scheduled for February, 1957). It may not have grown much, however, up to this point. Somoza is also opposed by a small group of Independent Liberals who split away in 1946 on the Arguello issue. A large part of the populace has been fairly indifferent on the subject of politics because of the prosperity generally felt up to this year.

Opposition elements have been deeply divided and have been unable to agree on a common program or candidate. There is some evidence that Nicaraguan Communists have infiltrated some small factions or that extremists would turn to the Communists for help. Col. Manuel Gomez Flores, former Guardia officer, has continually plotted against Somoza from exile, using persons of various nationalities. Gomez could be back of the present attempt. Several purported assassination plots have been nipped during the past several months. Somoza announced last month that he was aware of further plots against him, and he would deal with them.

The injury of Somoza brings the problem of the succession, which most felt had been postponed for six years, again to the foreground. The possibility that Somoza may be out of the picture might start the disintegration of the Somoza family–Guardia–Liberal tie-up. This possibility plus the effect of strong and indiscriminate reprisals might help to unite the opposition into an effective force.[2]

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[2] In a memorandum to Dulles and Hoover, September 25, Rubottom wrote that President Somoza's situation had improved somewhat that day although his condition remained critical. (*Ibid.*, 717.11/9–2556)

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104. Letter From the Representative at the United Nations (Lodge) to the Secretary of State[1]

New York, September 26, 1956.

DEAR FOSTER: Mena-Solorzano (Nicaragua) sought me out to tell me the following:

1. Somoza's health has taken a turn for the worse and the outlook now is that he will either die or be paralyzed for life.
2. Thus the Presidency of Nicaragua will be vacated.
3. Sevilla-Sacasa is unquestionably the best man to succeed him but he cannot be elected by the Congress which, under the Nicaraguan Constitution, would fill the vacancy.
4. The regular election is next February.
5. Mena-Solorzano would be willing to run and thinks he has a good chance of getting elected provided he has "the blessing of the United States".
6. He stressed the unstable course of events in Honduras and Costa Rica, the proximity of Nicaragua to the Panama Canal, and the possibility that Nicaragua might become another Guatemala unless the US takes an active interest.

Please let me know how I should answer him.

Faithfully yours,

Cabot L.

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[1] Source: Department of State, Central Files, 717.00/9–2656. Secret.

105. Special National Intelligence Estimate[1]

SNIE–83.3–56 *Washington, 27 September 1956.*

PROSPECTS FOR POLITICAL STABILITY IN NICARAGUA[2]

The Problem

To estimate the prospects for political stability in Nicaragua (1) if President Somoza recovers from his wounds, or (2) if President Somoza should die.

Conclusions

1. If President Somoza should recover and resume his office, his regime would probably be able to maintain itself indefinitely in power, although there would probably be a considerable intensification of political unrest in Nicaragua.

2. If President Somoza should die or be unable to exercise his office, Luis Somoza, his son and legally designated successor, would probably be accepted as interim president pending early elections. The demand for and expectation of political change in Nicaragua would be greatly stimulated and the struggle for the eventual succession would be intense. The position of the Guardia would be crucial.

3. Present indications are that, in these circumstances, the Somozistas would attempt to substitute Luis Somoza for his father as the Liberal candidate for president and to elect him in the same manner as his father would have been. Such a course could be prevented only by the defection of a major portion of the Guardia, which at present appears unlikely. Luis Somoza would not be as strong a president as his father has been, but would almost certainly be able

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[1] Source: Department of State, INR–NIE Files. Secret. Files of National Intelligence Estimates, Special Estimates, and Special National Intelligence Estimates are retained by the Directorate for Regional Research, Bureau of Intelligence and Research. Special National Intelligence Estimates (SNIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems on an immediate or crisis basis. SNIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of Cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of SNIEs.

[2] According to a note on the cover sheet, the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff participated in the preparation of this estimate. The Intelligence Advisory Committee concurred in this estimate on September 27.

to maintain his position so long as he retained the united support of the Guardia.

4. There remain possibilities for a different development of the situation between now and election day: (a) Luis Somoza may be shaken by a rising demand for political change and shrink from the repressive measures required to control it; (b) the Somozistas may not unite in support of his candidacy; (c) a substantial element in the Guardia may defect in favor of another political solution. In these circumstances, either Luis Somoza or the effective leadership of the Guardia might make a deal with the opposition leading to the election of a president acceptable to both sides. If the political situation should become so confused that no agreement among contending factions seemed possible, the Guardia would probably feel compelled to act as arbiter and install a government of its own choice.

Discussion

Background

5. President Somoza, through his control of the Guardia Nacional, the only armed force in Nicaragua, has been in effective control of that country ever since the withdrawal of the US military occupation in 1932. He has occupied the presidency himself since 1936, except for a brief interval (1947–1950) during which he continued to control the Guardia. In anticipation of the presidential election to be held in February 1957, he procured the removal of the constitutional prohibition against re-election and presented himself as the candidate of the Liberal Party. Inasmuch as he completely controlled the electoral machinery, his re-election was a certainty.

6. The Liberals' traditional opposition in Nicaragua is the Conservative Party. One faction of this party, by an accommodation with the Somoza regime, has been assured of one-third of the seats in the National Congress. Recently, however, even this faction has become restive regarding the prospect of Somoza's perpetuation of himself in power. Conservative Nicaraguans desiring a change in the regime profess to fear that, if it is not accomplished soon by conservatives, it will be accomplished eventually, with violence, by radicals. There is reason to believe that a Conservative revolutionary attempt was in preparation, designed to forestall the re-election of Somoza in February, but that these conspirators were surprised by the unrelated assassination attempt.

7. Another opposition element is the Independent Liberal Party composed of Liberals who broke with Somoza in 1945, and, in conjunction with the Conservatives, demonstrated preponderant

electoral strength in the election of 1947. This group could prove a significant factor in a fluid political situation.

8. Another factor in the situation is Colonel Manuel Gomez Flores, a former Guardia officer who mortally hates Somoza and is the leader of a motley group of Nicaraguan exiles, former Caribbean Legionnaires, and other quasi-professional revolutionaries, including some Communists.

9. The outlawed Communist Party, which numbers fewer than 200 militants in Nicaragua, has not been consistently anti-Somoza. Some Communists are known to belong to a pro-Somoza labor front, others to an anti-Somoza labor front.

Present Situation

10. There is so far no evidence to connect the would-be assassin with any political group and the attempted assassination has been followed by no related revolutionary attempt. The Guardia, in particular, appears to be loyal to Somoza. A state of siege has been proclaimed and numerous opposition leaders have been arrested.

11. Luis Somoza, the President's elder son, is in temporary charge of the situation as President of the Congress and the constitutionally designated successor in the event of his father's death. Despite this designation, Luis Somoza is a colorless figure, lacking in his father's qualities of personality and leadership. The other important personalities in the regime are Colonel Francisco Gaitan, the Minister of Defense, and Colonel Anastasio Somoza, Jr. ("Tachito"), the President's younger and favored son, who is in immediate command of the Guardia. Gaitan is an old soldier who came up from the ranks and is highly regarded in the Guardia, particularly by senior officers who resent and distrust "Tachito". "Tachito" is a violent, impulsive, and arrogant character, not generally popular in the Guardia. However, he may be able to exploit the impatience of younger Guardia officers with their seniors.

Prospects

12. Even if President Somoza should fully recover, his near-elimination will have had a stimulating effect upon the stagnant political situation in Nicaragua. Unrest will have been intensified, and this may encourage further efforts to overthrow the regime. These results would be even more probable if Somoza had a long convalescence or if he did not fully recover from his wounds. Unrest would also increase if there were violent and indiscriminate retaliation upon opposition leaders for alleged complicity in the attempted assassination. However, so long as Somoza is capable of exercising command the Guardia will probably remain united in support of him. With this support he could maintain himself against any

opposition, although the task would be more difficult if he were in ill health.

13. If President Somoza should die or be unable to exercise his office, Luis Somoza, his son and legally designated successor, would probably be accepted as interim president pending early elections. The demand for and expectation of political change in Nicaragua would be greatly stimulated and the struggle for the eventual succession would be intense. In these circumstances, the position of the Guardia would be crucial, and much would depend on whether the principal adherents of Somoza remained united.

14. In the event of President Somoza's death or incapacitation, the most effective course, from a Somozista point of view, would be to substitute Luis Somoza as the Liberal candidate for president and to elect him in the same manner as his father would have been elected. Present indications are that this course would be attempted. Luis being willing and the Somozistas being agreed among themselves, it could be prevented only by the defection of a major portion of the Guardia, which at present appears to be unlikely. Luis Somoza would not be as strong a president as his father has been and opposition to a continuation of the Somoza regime would be substantial. However, given the continued united support of the Guardia, Luis Somoza would almost certainly be able to maintain his position as president.

15. There remain, however, possibilities for a different development of the situation between now and election day: (a) Luis Somoza, who is considered to be irresolute, may be shaken by a rising demand for political change and shrink from the repressive measures required to control it; (b) the Somozistas may not unite in support of his candidacy; (c) a substantial element in the Guardia may defect in favor of another political solution. In these circumstances, either Luis or the effective leaders of the Guardia might make a deal with the opposition leading to the election of a president acceptable to both sides. The feasibility of this solution would depend on its acceptance by the leaders of the Guardia.

16. If the political situation should become so confused that no agreement among contending factions seemed possible, the Guardia would probably feel compelled to act as arbiter and install a government of its own choice.

17. "Tachito" has threatened violent reprisals on the opposition if his father dies, and is believed personally capable of carrying out this threat. If he were to do so, there would be a strong revulsion of feeling in Nicaragua and a Guardia junta might feel compelled to take over.

18. It is unlikely that either exiled revolutionary elements (e.g., the group led by Colonel Gomez) or the weak Communist Party in

Nicaragua could succeed in gaining control of the situation, even in circumstances of political instability and confusion.

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106. Editorial Note

President Anastasio Somoza died September 29 in Gorgas Hospital in the Panama Canal Zone. Colonel Luis Somoza, eldest son of the late President, was elected interim President by a unanimous vote of the Nicaraguan National Assembly on September 29. In a letter to Wollam dated October 4, Edw. Glion Curtis, Counselor of the Embassy, stated in part the following: "By the time the President's death occurred, considerable progress had been made in the investigation and both President Luis and Colonel Tachito had clearly decided to avoid, in the interests of Nicaragua, any excesses or indiscriminate reprisals. I believe that it is most unfortunate that President Somoza died. At the same time, it is also my feeling that his survival for as long as he did, saved Nicaragua from irreparable damage which could also have adversely affected United States interests." (Department of State, Central Files, 717.11/10–456)

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107. Letter From the Counselor of the Embassy in Nicaragua (Curtis) to the Officer in Charge of Nicaraguan Affairs (Wollam)[1]

Managua, October 4, 1956.

DEAR PARK: In connection with your letter of September 27, 1956,[2] which both the Ambassador and I had read very carefully, I wish to set forth certain factual data about developments as they occurred here. This statement, I hope, will give you some background on why we acted as we did, particularly with reference to the problem of reporting developments.

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[1] Source: Department of State, Central Files, 717.11/10–456. Secret; Official–Informal.

[2] In a letter to Ambassador Whelan, September 27, Wollam wrote that the Office of Middle American Affairs was aware of the fact that the Embassy reported to the Department through various channels. He stated further, "There are, however, areas in the Department which are not aware of this cooperation and that do not know the reporting coming through other channels is often factual data and estimates from the Embassy itself. This occasionally leads to the unjustified feeling that the Embassy is

The President was shot about 11:30, the night of September 21. The Ambassador first got word of the shooting about 12:30 from the Military Attaché, Colonel Chilson.[3] I first got word about 1:00 when I returned to the house of the Vice Minister of Foreign Affairs, Dr. Alejandro Montiel, to drive him to the Palace for an emergency cabinet meeting. The Ambassador, upon arrival at the Palace, immediately tried to telephone Washington and Panama. Tropical Radio, as usual, had closed down at 10:00 p.m. but had been reopened by order of the Palace only for telephone calls from the Palace or approved by it. The Ambassador had alerted the Embassy staff, who were present in the office. By this time, the cabinet had declared martial law, with the President's signature on the document, and all outgoing communications, except ours, were held up. National Guard units had been arresting listed persons from about midnight.

The Ambassador asked Col. Downing to take the telephone call he was trying to put through, and come to the office. At the office we tried two additional means of communication, namely through . . . to Washington and through Mars Radio hook-up to Panama. Shortly after 2:30 a.m., September 22, the Ambassador drove to León. In the meantime, I remained at the office to continue the efforts to communicate with either Panama or Washington.

At León, the Ambassador received a medical statement on the nature of the wounds and injuries, which he telephoned to me at the Embassy office. This confirmed the earlier report he received at the Palace and was the basis for our request for medical help. By 4:30 a.m., it had been decided to transfer President Somoza from León to the General Hospital at Managua, using the IAGS helicopter for the purpose. About 6:00 a.m., Nicaragua time, i.e. 8:00 a.m., Washington time, . . . finally got the message through. Shortly after that we also were able to communicate with Panama. The Ambassador arrived back from León about 6:30 a.m. President Somoza arrived and was placed in the General Hospital about 7:30 a.m. Our Military Attaché, Col. Chilson, and the staff of the US Military Mission, under Lt. Col. De Sautels after establishing contact with Panama, set up a continuous communication system.

Col. De Sautels and Col. Chilson established an office over at the General Hospital in a room opposite that where President

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letting other agencies do its reporting or that there is an insufficiency of data from the Embassy." (*Ibid.*, 717.11/9–2756)

[3] Robert A. Chilson, U.S. Army Attaché in Nicaragua.

Somoza was lying. The Ambassador remained at the Embassy office and I moved between the office and the General Hospital with messages that we did not feel could properly be sent over the telephone. In view of the strict control around the area where the President was located, as well as strict police control of the movement of vehicles at that time, the Ambassador, Col. Chilson, Col. De Sautels, . . . and I were the only ones who could get in and out of the hospital area near the President freely. Either Luis Somoza or Tachito Somoza, and sometimes both, had permanent headquarters in the same area of the General Hospital.

By 9:30 a.m. we had received word of the prospective departure of the Panama medical team and of the decision of President Eisenhower to send down General Heaton. I went over to the Hospital to be present when Col. Bruce and his group arrived from Panama, about 2:30 p.m. Their preliminary examination convinced them that there was no abdominal puncture, that the lung puncture, if any, was minor, and that the serious problem was the bullet that had lodged in the spinal column. This last bullet required a neurosurgeon. In accordance with the oral instructions which the Ambassador had received over the telephone, as soon as Col. Bruce and his colleagues had arrived, I placed a telephone call direct to General Snyder at the White House. Col. Bruce spoke to him and gave their findings. By this time, approximately 4:00 p.m., Saturday afternoon, the plane with General Heaton was in the air and it was too late to pick up a neurosurgeon from the States. In the meantime, Col. Bruce indicated that a very good Panamanian neurosurgeon, Dr. Gonzalez Revilla, was in Panama. We, meaning Col. Bruce, made arrangements through the Military Attaché communications with Panama for Doctor Gonzalez to be ready, either to perform an operation in Panama or to be transported with his equipment and assistants to Managua for an operation.

During the period from this time until the arrival of General Heaton and his colleagues, the President was in extreme pain. Sufficiently, so that he had persuaded Dr. Luis Manuel Debayle that it was essential to start operating immediately. It was only Col. Bruce's contrary opinion and the fact that General Heaton was enroute which prevented an operation with inadequate medical data, according to what Col. Bruce told me, and under adverse conditions.

During this time, there was little opportunity to sit down and write any telegraphic reports. Col. Chilson had some moments of opportunity at the hospital. I had none. . . . Consequently, during this period we had their messages going out. All the Army messages were marked Pass State and represented our joint views. . . . We were fully coordinated here and each telegram represented our joint views. At that point we felt the important phase of the operation was action and keeping Luis and the attending doctors informed rather than extensive reports, which could only have been surmises and guesses at that stage.

After General Heaton arrived, confirmed the findings of Col. Bruce, and recommended strongly that President Somoza be transferred to Gorgas, it was necessary to get a clearance for this purpose from General Snyder and to have the concurrence of competent authorities in Nicaragua. By about midnight, Saturday night, an impasse had been reached in that General Heaton was recommending strongly the transfer of the President for medical reasons and to improve the chances of success of the necessary operation. Col. Luis Somoza, who by then had assumed de facto control of government operations in his capacity as President of the Congress and designate to the Presidency, under the constitution, if President Somoza should either die or be incapacitated, was reluctant to approve the transfer of President Somoza to Panama. This position of his was partly based on the views of some of his advisers. At that point, I called Ambassador Whelan and asked him to come down, which he did. The matter was finally resolved when Ambassador Whelan, General Heaton, and Luis Somoza went in and outlined briefly to President Somoza the problem. General Somoza's reply was "What are we waiting for, let's get going."

After the departure of President Somoza for Panama at about 2:30 a.m., September 23, we had a breathing spell, and for the first time since the start were able to get some sleep. We were still operating on the theory that messages sent through Army, Embassy or . . . channels, were being promptly coordinated in Washington. Consequently, at this point we had no reason to change our method of operation or reporting. As you know, the Foreign Service Inspectors were here. They asked whether we wished the Inspection suspended in view of the situation. With the pressure somewhat eased and our feeling about the single channel for combined reporting, we informed them that there seemed to be no reason at that point to discontinue the Inspection. We were possibly mistaken in taking that position, although Mr. Stebbins later said that he was glad of the opportunity to observe the Embassy operation in an emergency. My secretary, Miss Cecil Levy, was working full time, plus extensive overtime, solely for the Inspectors, with the exception of Friday morning. Toward the end of that week it became necessary to reorganize the Embassy in view of the urgent necessity of sending Mrs. Lawyer to the United States for medical attention.

Another additional pertinent fact was that the Ambassador is Dean of the Diplomatic Corps and that Nicaraguan protocol is deficient in several important respects. This was relatively minor until funeral arrangements had to be made, when it became a tremendous job to convey communications received from the Ministry of Foreign Affairs to each of the 22 other Missions established in Managua.

In the meantime, while our considered estimate of the situation was that there would be continued maintenance of law and order, and stability, at least for a substantial initial period, nevertheless even Tachito Somoza was somewhat worried about the possibility of local rioting or disturbances which could have been dangerous to American citizens. Early, we were told a leaflet (of which we were not able to get a copy) of a communist nature was distributed in the market in Managua. We knew that strict orders had been issued that in the event of any serious disturbance there, the soldiers were to shoot to kill. Consequently, we felt it prudent to take certain preliminary emergency steps in case it should be necessary to house, feed, and protect American citizens from any particular area.

. . . On September 25, Captain G.F. Richardson from General Harrison's staff, Quarry Heights, arrived to blast the Military Attaché for not keeping Quarry Heights informed of developments. He was fully briefed by us and left satisfied that there was no failure on the part of our Military Attaché but rather that the Department of the Army had not been forwarding the messages.

In conclusion, let me assure you that in the future the Embassy will submit its own reports. We are also inclined to agree with you that a political reporting officer, who is already scheduled for here, is desirable. Moreover, it seems essential that the State Department set up its own emergency channels of communication during the time in these countries when commercial channels are closed down and when it is difficult to wake up personnel at the receiving end (Panama and Washington, in this case) to accept messages.[4]

Sincerely,

Glion

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[4] In a letter to Curtis, October 11, Wollam stated the following: "You may be certain that it is fully realized that there are emergency situations when special communications have to be used, and any suggestions you have for improving the channels will be promptly followed up here. The Embassy's judgement on how something should be transmitted is the final authority, since it is usually impossible for us here to know exactly what the circumstances are." (Department of State, Central Files, 717.11/10–456)

108. Memorandum From the Officer in Charge of Nicaraguan Affairs (Wollam) to the Director of the Office of Middle American Affairs (Neal)[1]

Washington, October 10, 1956.

SUBJECT

Nicaragua: Possible Trouble Spots

Background

Luis Somoza has been made the constitutional president for the remainder of his father's term (until May, 1957). He was nominated as the official candidate of the Liberal Party for the elections of next February. He ostensibly has the support of his brother, Anastasio, Jr. (Tachito), who has the backing of the armed forces. On the surface it would appear that there is a good chance for the orderly continuation of the Somoza regime under Luis, who has promised to work for "national conciliation." There are, however, some possibilities of trouble which can not be overlooked, despite the apparently smooth transition that has taken place so far. Some of these are listed below:

1. Opposition to Somoza Family

Long prior to the assassination it was clear that there was considerable opposition to the renomination of General Somoza. This came not only from the Conservatives and the Independent Liberals, but also from elements of the Liberal Party itself. The extent of this opposition within the ostensible support of Somoza is an unknown factor. There is, however, a feeling in some circles that it is time for a change, and that some one outside the immediate family should be president. These persons feel that a "compromise" candidate will enable the Somoza family to retain its holdings while providing a transition away from the 20-year rule of the late president. These persons feel that if this is not done the Somozas will be turned out by force. The course of events has indicated that a part of their thinking has been correct as has been demonstrated by the assassination.

It would seem logical that this feeling would have grown rather than diminished with the death of Tacho. Luis Somoza has been nominated for the Presidency, however, and it is doubtful that under the circumstances any one in Nicaragua could overtly oppose the nomination of Luis at this moment. Guillermo Sevilla Sacasa, Luis

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[1] Source: Department of State, Central Files, 717.00/10-1056. Confidential. Also sent to Sowash.

Manuel DeBayle, Luis Mena-Solorzano, and various others with personal ambitions might be expected to work covertly against Luis.

2. Conservative Opposition

The Conservatives have been divided on methods and approach to the problem of Somoza. The recent developments should, if anything, bring them closer together as there is more of a chance to recover power and authority. Increased resentment by the Conservatives will probably depend considerably on how the Somoza boys handle the opposition in their investigations. Too vigorous reprisal measures might serve only to consolidate the opposition.

The radical fringe of the opposition, under Colonel Gomez Flores might well redouble its efforts to start trouble in Nicaragua. Colonel Gomez Flores has been attempting to mount a revolutionary attack for years. Recent developments might make this easier in combination with the other possibilities discussed. Failure to obtain a change in the government through the death of the president, might cause an intensification of the efforts to eliminate the young Somozas.

3. Support of the Armed Forces

At present it is usually said that Colonel Tachito Somoza has inherited the support of the lower-ranking Guardia officers and the troops. There are many older officers, at least, who are reported to resent Tachito, who himself estimated one year ago that 50% of the Guardia might be against him. It is possible that the non-flying Tachito is also resented by the Air Force which he assumed command of recently "to avoid any dissension." There have been rumors of a military junta prepared to take over the government. Doubts have been suggested concerning the loyalty of Colonel Camilo Gonzalez, commander of the presidential guard, Colonel Francisco Gaitan, Minister of War, General Régoberto Reyes and other senior officers. It is impossible to estimate the extent of the anti-Somoza feeling within the Armed Forces, but the continuing flow of rumors over a long period would indicate that there is some, and they cannot be disregarded.

4. Somoza Family Fortunes

There is no comprehensive information with regard to the value of Somoza family holdings. In one form or another the late President was said to have owned nearly ten per cent of the cultivated land in Nicaragua plus dozens of other lucrative enterprises. Guesses have put the family fortunes up to $50,000,000. and they could be more or less. Some of the land and other enterprises were allegedly acquired by pressure of various types. On the other hand Somoza is supposed to have numerous minority partners, including some of the political opposition who might hope to hold what they have.

Wealth in this proportion might well attract the attention of (1) Persons who might wish to nationalize all or parts of it in retaliation for real or fancied offenses, or (2) Opportunists seeing a chance to make financial killings if the Somoza boys are chased out of Nicaragua. Members of the family and in-laws might disagree over division of the estate, which would cause political repercussion. There is no concrete information as to what part the Somoza wealth might play in any developments, but the stakes are obviously high for any place, much less Nicaragua.

5. Family Feuding

Critics of the Somoza family claim there is little possibility of Luis and Tachito getting along together for any length of time. A split between the two would fracture the government, and would probably result in both being ousted. Others claim that the Somoza financial interests force the boys to stick together to save the family fortunes.

General Comment

The nature of the late rule of General Somoza makes actual feelings most difficult to assess. It could be assumed, however, that barring a rapid change in orientation by Luis Somoza, the same extremists responsible for his father's assassination will be out after him.

Despite the present appearances of calm, there are potential trouble spots which may become more apparent when the initial shock of the President's assassination wears off a bit, and when many persons fully realize that the old master is no longer present.

The current situation practically forced the Liberal Party to nominate Luis for the presidency. This might set off the various anti-Somoza forces, unless Luis and Tachito both exercise a degree of political know-how and local statesmanship which up to now has not been expected of them. It is thought that use of force and severe reprisals will only aggravate the situation.

The key to the situation may well be the anti-Somoza feeling within the Liberal Party. If there is a strong feeling of this nature, it might be expected that there will be a strong revival of the Independent Liberals or some other Liberal rump group. If there is any degree of political freedom the Independents might be expected to nominate their own candidate in opposition to Luis. This might take a different interpretation of constitutional provisions, which have previously required 20,000 signatures for a new party. It is also possible that the personal aspirations of many scrambling for the power will prevent any unified action. There could also possibly be a Conservative-Independent alliance under these circumstances. The next two months should bring indications one way or the other.

U.S. Interest

Most groups in Nicaragua are believed friendly toward the United States. It is possible of course that some of the much-publicized friendliness was merely that of the regime rather than any deep-seated popular feeling. Essential opposition friendliness has been somewhat tempered by the belief of many that the United States was "supporting" the Somoza regime. The demonstrations with regard to the medical aid to Somoza may have increased the bitterness of those who were already bitter, and might be used to convince some of those who were more or less on the line that the United States is against them. Most opposition leaders of repute are said to understand our position, but this may not apply to the masses.

This would, therefore, seem to be a crucial period in our relations with Nicaragua. If the U.S. gives the appearance of supporting Luis Somoza, it will be taken as a sign that we are continuing to deny opposition aspirations. This could well cause a deterioration in the feeling toward us in many groups both in Nicaragua and elsewhere. It would be a convenient basis for communist propaganda.

On the other hand, if we do not give the appearance of wholehearted support to Luis we might lose in some circles. More important is the fact that any appearance that we are lukewarm or indifferent may well encourage opposition elements. Especially in view of revived canal interest, we must endeavor to keep on friendly terms with all concerned.

It is not believed that there is any major communist problem in Nicaragua at the present time. Communists are, however, most adept at taking advantage of difficulties of any type. The possible exception is the "Leftwing-Conservative" radical groups of Colonel Manuel Gomez Flores, which may include communists and about which there is considerable suspicion. This is only a small fringe, however.

With either the optimistic view that Luis Somoza will be able to consolidate his position, or the pessimistic one that he is in for trouble from one or more of the sensitive spots mentioned, there are, I believe, three general policies which can be followed:

1. Careful non-intervention with a sufficient, carefully-conceived build-up to get this across prior to elections. Luis Somoza might follow his announced policy of conciliation successfully or retain sufficient force to keep going indefinitely; there could be a

complete change. A policy of non-intervention is always subject to misinterpretation.

2. Calculated support for Luis Somoza on the basis that Luis will get himself elected anyway and the Guardia will stave off trouble indefinitely. This might delay any reaction, but it would probably build up resentment in the long run and further complicate our future problems.

3. Disguised intervention to the extent that we use our influence to try to mold Luis and Tachito; to persuade them to hold real elections with the hope of an orderly transition from the Somoza regime before something causes it to collapse anyway. Carried a bit farther, it might be considered wise to persuade the Somozas not to be candidates, for their own health and prosperity and for our own interest in filling the vacuum as soon as possible.

Any government following the long reign of Somoza will have difficulties and will cause problems. Luis is a known friendly factor, but it is not thought that we have anything to fear from any of the established groups. The main objective should be the ability to continue friendly cooperation with any reasonable government and receive the same.

For these reasons it is believed that a careful policy of non-intervention would be preferable in the long run. Within the policy of non-intervention it might be desirable to have a slight and gradual increase in emphasis to be accomplished slowly as a normal pre-election operation. There cannot be any abruptness in this process, but there should be a carefully-conceived re-emphasis of the fact that the United States has nothing to do or say with regard to the choice of candidates or election of officials.

In any case, it is thought that we should examine the whole problem of present and future relations with Nicaragua.[2]

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[2] In a memorandum to Wollam, October 16, Rubottom wrote: "I believe that we should adopt the first of the alternatives you discuss, namely 'careful non-intervention.' This should enable us to continue friendly cooperation with any reasonable government, our main objective as you observe. In carrying out such a policy of non-intervention we must of course be most careful not to cause the Somoza brothers to interpret our position as a reversal of what they may feel, with some reason, was a policy of support for their father, since this could be interpreted as intervention in itself. We should continue to watch developments carefully and subject them to frequent scrutiny and analysis, being prepared to meet changing conditions with considerable flexibility as required." (*Ibid.*, 717.00/10–1656)

109. Despatch From the Ambassador in Nicaragua (Whelan) to the Department of State[1]

No. 218 *Managua, October 29, 1956.*

SUBJECT

Evaluation of Administration of President Luis Somoza, After Approximately One Month

Summation

After a little more than one month under President Luis Somoza it is appropriate to make a preliminary evaluation of the country, the government, and his regime. He has clearly maintained order and stability and with the release of considerable numbers of prisoners a start toward normality has been made. One officer believes that there is outward stability but that from the reports on hand there are opposition forces at work which could upset this condition, although it appears that these forces are not well united and therefore appear likely to be ineffective. So far as we are aware, there is no instance of reprisals, excesses on the part of the Guardia or other officials, or major irresponsible action. While there is still a certain apprehension in the general public, this seems to be more directed against the possible minor local abuses of power by Guardia personnel in the various City Districts than anything else. Rumors are still rife, due to lack of authoritative statements about possible implications of high officials, but the earlier rumors of impending revolution, particularly from outside sources have decreased. The investigation of the crime seems to be proceeding in an orderly manner; the National Liberal Party has nominated President Luis as its candidate for the elections on February 3, 1957; and President Luis and his advisors have developed and maintained, during the past two weeks, correct and friendly relations with all neighboring countries.

Order and Stability

Despite some earlier prognostications that the violent death of President Somoza would be followed by chaos in Nicaragua, this has not developed at all. All during the period under review public order has been well maintained and there has been no known serious threat to the stability of the government. Local commandants in the outlying districts of the National Guard have followed instructions remarkably well. So far we have no reports that any of these commandants have indulged in any major irresponsible action within their district. In other words, there has been no loosening of the discipline within the Guardia.

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[1] Source: Department of State, Central Files, 717.00/10–2956. Confidential.

National Guard

Despite the fact that during the final week some substance seemed to develop behind the earlier rumor of involvement of certain Guardia officers, this has not resulted in any apparent breakdown of discipline of the Guardia as a whole, nor has any question arisen as to the loyalty to the regime of the National Guard as a whole. There is question about the loyalty of some individual officers, the extent of whose following is not known. During the whole period there has been a remarkable lack of excesses, reprisals, or irresponsible action on the part of the Guardia. Many of the opposition members who were arrested early and released after verification of non-involvement, have reported that they were not mistreated, and in one case that they were even handled with courtesy. However, some abuses have been reported.

Investigation of Crime

After the preliminary investigation by Col. Anastasio Somoza, Jr., Director General of the National Guard, a Military Investigation Court was formed and given responsibility to continue the investigations with a view to recommending charges to an Extraordinary Military Council. The work has been carried on methodically and carefully, and rather significant results have been obtained to date of clarifying the Nicaraguan associations in the assassination. Some difficulty has been encountered due to inability to get full support from the Salvadoran authorities for a thorough inquiry into the background in that country of the persons associated with the crime. However, the recent questioning of Cornelio Silva Arguello, an implicated member of the Caribbean Legion, has according to the newspaper, produced evidence of significance.

Restoration of Normality

By the end of the period under review, the ordinary police were manning the checkpoints on the highways and following the normal peace-time routine. The National Guard officers had been removed and no further inspection of trunks of cars was conducted. International travel by highway into and out of Nicaragua is still restricted. Travel by air has almost resumed normal operations. Technically, the state of seige still continues. This is primarily a legal necessity to serve as the basis of the Military Courts. It also is a somewhat disturbing element, particularly to the lower classes in that the National Guard has considerable independent authority. Business, particularly retail trade, is off, but this may be partly due to seasonal factors. Entertainment on a modest scale has recommenced. The night clubs are operating again and the people moving about the streets during the day and night seem to be almost normal.

Threats from Outside

During the early portion of the month, the government newspapers, as well as the rumor-mongers, gave considerable attention to various alleged threats being developed from outside the country. These rumors have subsided considerably and are now at about their normal level. Such rumors in this area of the world are always current.

Foreign Relations

In general, relations with other countries, at least insofar as reflected in developments in Nicaragua are concerned, are friendly and correct. There has been appreciable improvement in the relations between the government of Nicaragua and the government of Costa Rica although some deterioration may now set in with the newly publicized tie-in between President Figueres and the assassination through Cornelio Silva Arguello. While there was a certain strain between Nicaragua and Salvador early during the period, this seems to have eased somewhat. No problems exist with Honduras and Guatemala.

Nomination

President Luis Somoza has been nominated by the National Liberal Party as its candidate for the next six-year term. He says he took this action despite the opposition of his mother and wife and his own reluctance. His stated reasons for doing so were two-fold: 1) that it was essential in order to preserve the unity of the National Liberal Party and 2) it was almost essential in order to forestall difficulties with the National Guard, which he claims is almost 100 percent liberal.

Prognostication

1) Everything points to an early return to normality and continued stability of the government (one officer, as indicated earlier, does not agree with this estimate as a certainty);

2) It seems assured that President Luis will be reelected on February 3, 1957 (one officer believes that some of the threatened activity may materialize but on the basis of present information, believes this is unlikely);

3) The problems which the government of Luis Somoza will have have not yet become apparent. He is inclined toward social

legislation and may try to move too quickly in governmental action for the country;

4) It is quite likely that President Luis Somoza will at some time come out clearly stating that he will accept the Presidency only for one term;

5) It is not unlikely that Col. Anastasio Somoza will leave the government to return to manage Mamenic Line out of New York, after the inauguration, if not earlier;

6) There is a good chance that if the country seems to be developing normally and no serious threats of instability exist, Luis Somoza may not finish out his presidential term by voluntary action on his part;

7) There continues to be very deep resentment of any member of the Somoza family as the head of the government among certain peoples. This clearly raises the possibility of another assassination attempt;

8) If Luis Somoza should be assassinated or incapacitated, there does not, at the moment, appear to be anyone strong enough to control the country alone. As in other moments of crisis, the country would probably follow strict constitutional provisions and the designate of Congress would assume the presidency. (However, the Military Attaché believes that in such a case the National Guard would seize control.) The Guardia probably would support such a person initially if he is a National Liberal and has not been individually antagonistic to it;

9) The view of President Luis and Col. Tacho Somoza is that in the event of the successful assassination of both of them, a Military Junta would take charge and that serious disturbances would follow;

10) At the present moment it is not clear who might emerge on top of such a situation and it is difficult to develop any detailed agreement among qualified observers on what might develop after the initial period.

For the Ambassador:
Edw. Glion Curtis[2]
Counselor of Embassy

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[2] Printed from a copy which bears this typed signature.

110. Letter From the Director of the Office of Middle American Affairs (Neal) to the Ambassador in Nicaragua (Whelan)[1]

Washington, October 30, 1956.

DEAR TOM: The Department has received a note dated October 17, 1956 from the Nicaraguan Embassy concerning the desire of the Nicaraguans to purchase a considerable amount of arms and ammunition. A complete list of the items is attached.[2]

There appears to be good reason to question the need for this large amount of arms and ammunition on the part of the Nicaraguan Government at this time. The Department understands that equipment for a battalion sized unit which was furnished the Nicaraguans under MDAP has, up to the present, been stored and no progress has been made toward organizing a military unit or units to make use of it. Furthermore in 1955 the Nicaraguans purchased from the United States 7,000 M–1 rifles along with 7 million rounds of ammunition, which it is assumed are available to the Nicaraguan Army. It might also be noted that the U.S. Army has just delivered them four tanks, three of which are understood to be en route.

If the Nicaraguans feel the need of additional military units as a stabilizing influence, it would appear to be to their advantage to organize the MDAP battalion rather than to burden themselves with additional outlays of funds for new equipment. Should they do this, there would seem to be little real need for additional arms at this time. The same would appear to hold with regard to their need for ammunition, unless supplies have been reduced by consumption, or deterioration to a point where replacement is required.

Present United States military policy toward Latin America as set forth in NSC Paper No. 5613/1[3] provides that while we propose to assist Latin American countries in acquiring their minimum military needs to insure internal security and the meeting of any commitments toward hemispheric defense, we shall at the same time try to persuade the Latin Americans to keep their military requirements in line with their minimum needs. It seems to me that this is a case where such persuasion would be appropriate.

I should very much appreciate your views as to the needs of the Nicaraguans for additional arms and ammunition at this time. I should appreciate as well your thinking as to whether we might not, in line with our present military policy toward Latin America, attempt to persuade the Nicaraguan Government to withdraw or sharply reduce their request and concurrently to set about organizing the MDAP battalion.

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[1] Source: Department of State, Central Files, 717.56/10–1756. Secret; Official–Informal.

[2] Not printed.

[3] See vol. VI, Document 16.

Sincerely,

Jack D. Neal[4]

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[4] Printed from a copy which bears this typed signature.

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111. Memorandum From the Director of the Office of Middle American Affairs (Neal) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, January 22, 1957.

SUBJECT

Nicaragua: Pre-Election Atmosphere

The Embassy at Managua reported on January 18 that the Nicaraguan dispute with El Salvador with regard to extradition of various Nicaraguan exiles has been turned over to ODECA Secretary Trabanino. Nicaraguans generally feel that the matter is being handled satisfactorily, and agitation on the subject has quieted. It was previously reported that Costa Rican-Nicaraguan relations have improved considerably.

According to the Embassy, everything in Nicaragua is calm and orderly, despite the fact that the elections are only two weeks away (February 3). The Embassy comments as follows: "Some people feel that this atmosphere is unnatural and consequently expect some sort of trouble to be sparked either by the announcement of the sentences on the 21 civilian defendants some time next week, or during election day."

"Despite the doubts about the current lack of rumors and apparent calm, there are indications that this may be a real though heretofore unusual lack of concern."

President Luis has through the press invited foreign newsmen to observe the elections and has assured their complete freedom of movement.

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[1] Source: Department of State, Central Files, 717.00/1–2257. Confidential.

MID Comment

Without any real facts to go on, MID is also somewhat concerned with the Nicaraguan situation and the seeming disappearance of the opposition.

Our Embassy is ordinarily very optimistic about the acceptance of Luis Somoza in all sectors. He appears to have a progressive and conciliatory program. In view of recent history, however, MID finds it hard to believe that during the short period since the assassination the opposition to the Somozas has been reduced to a negligible number of extremists without real capabilities. On the same intangible basis it is difficult to believe that everyone in Nicaragua happily accepts the complicity of the 21 defendants in the current trial, or the treatment of several prominent Guardia officers on the grounds of negligence or complicity.

While the February 3 election is supposed to be free there is some evidence that the opposition party is a dummy group set up with the connivance of the government, so that choice is effectively limited. The hard-shell opposition, if any does remain, must be aware of this.

In short, MID remains to be convinced that the apparent national conciliation is indeed a fact, and that there are not still potential sources of serious trouble to the Somoza administration. Despite this uneasiness it must be admitted that the government does appear by all visible evidence, to have the situation firmly under control.

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112. Editorial Note

Presidential elections held on February 3, 1957, resulted in the election of Luis A. Somoza as President of Nicaragua. Somoza defeated Edmundo Amador, the nominee of the Nicaraguan Conservative Party. Documentation on this subject is in Department of State, Central Files 717.00 and 717.11.

113. Memorandum From Richard B. Moon of the Office of Middle American Affairs to the Director of the Office (Wieland)[1]

Washington, July 9, 1957.

SUBJECT

Recent Arms Purchases By Nicaragua

Delivery has been made of the following military items purchased from Israel by Nicaragua.

68 "Staghound" armored cars. The "Staghound" is a four-wheeled armored vehicle mounting a 37-mm. cannon and 3 machine guns, carrying 5 men, capable of a speed of 60 mph and of going anywhere a jeep can go, and useful for police action and street fighting as well as field work. The vehicles were originally built in Detroit for the British.

20 radio-communications master station units, each with a great many associated field receiving and sending sets.

4 anti-aircraft cannon, probably Bofors models.

An unknown number of mortars, probably 120-mm.

A considerable supply of ammunition for all the foregoing weapons.

The value of the above purchase is estimated (by the *New York Times,* July 8, 1957) in the neighborhood of $700,000.

According to Irving Davidson, purchasing agent for the Nicaraguan Government, the Nicaraguans desire to maintain only about 25 of the armored vehicles. A certain number, according to Davidson, are to be cannibalized for parts and the remainder to be re-sold to other countries. It was thought earlier by the Nicaraguans that they would be able to sell 28 of the 68 "Staghounds" to Cuba, however, recent indications are that Cuba is not interested in buying at this time. Nor, to our knowledge, do the Nicaraguans have any other prospective "Staghound" buyers lined up. In the past, Nicaragua has helped to finance arms purchases by the same methods they apparently hoped to employ with the above mentioned "Staghounds", that is, by buying fairly large quantities of equipment and then reselling a part of them to other Latin American countries. Acting thus, as the middleman, they have been able to make up much of the cost of those arms which they desired to keep.

The United States is the chief supplier of arms to Nicaragua. That country has consulted with us often concerning its requests for small arms and other equipment. Most of Nicaragua's attempts to purchase arms from the United States have met with approval, however, upon occasion, we have attempted to discourage them. Last year, for example, the United States effectively discouraged a similar attempt by Nicaragua to buy surplus tanks and armored equipment in the U.S. and Canada. At that time the Nicaraguans were investigating the possibilities of buying fairly large quantities of such equipment with the hope of re-selling a portion of it in Latin America. We informed them informally, however, that the Department was opposed to this plan, and they dropped the project. Recently Nicaragua has been attempting to purchase some sort of naval coastal patrol vessels. They had in mind obtaining a pair of Corvettes from Israel, however, the United States, which felt this type of vessel was too large and too expensive for Nicaragua's needs, dissuaded them from buying the Corvettes. Now Nicaragua is seeking a smaller type patrol boat. The present purchase of equipment from the Israeli Government, however, was made without prior consultation with the United States. Although we were aware that the Nicaraguans were "shopping" for arms in Israel and that they had expressed some interest in the "Staghound" type vehicle, we did not know that they contemplated buying in such large amounts, and we were not informed of the purchase until after it had been made.

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[1] Source: Department of State, Central Files, 717.56/7–957. Confidential.

There is no doubt that the quantity and type of equipment which Nicaragua has now acquired will create a great deal of apprehension among her Central American neighbors, particularly Honduras and Costa Rica. It is probable that attempts will be made by Nicaragua's neighbors to restore the military balance as soon as possible. The purchase in question might also cause a deterioration in the currently improving relations between Nicaragua and her neighbors.

The United States Position:

1. *On the purchase of the equipment.* It must be made clear to the other Central American states that the United States was not associated in any way with this Nicaraguan action. We were not consulted concerning the purchase, nor was our approval sought. We should make it clear to the Nicaraguans that we consider the quantity of equipment acquired to be in excess of Nicaragua's normal defense needs or her hemispheric defense commitments. Further, we should remind the Nicaraguans that the United States would greatly regret any deterioration of the relations between Nicaragua and her neighbors as a result of this arms purchase. In addition, we should call to the attention of Nicaragua the fact that equipment purchased from European sources often proves unsatisfactory in the long run because of the difficulties in maintaining them and obtaining spare parts.

2. *On the possible re-sale of the equipment.* We should remind the Nicaraguans that the Department views with disfavor any Nicara-

guan effort to act as middleman in the selling of arms in Central America or any attempt to arm groups with hostile intentions.

3. *On the possible attempt of other Central American states to restore the military balance by buying arms from the United States or from other sources.* The United States would view with disfavor any attempt at an arms race in Central America. Although the United States has, in the past, assisted the countries of Central America to meet their economic and military needs, should these countries begin to expend their scarce wealth in a general arms build-up, it might become necessary for the United States to take a long and critical look at its economic and military policies toward Central America.[2]

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[2] In circular airgram 564 to Managua, July 18, the Department informed the Embassy of the delivery of military equipment to Nicaragua. The airgram reads in part: "Although the Department was generally aware that Nicaragua was shopping for military equipment in Israel, we were not consulted concerning the purchase in question, nor was our approval sought. The Department was surprised by the quantity of equipment purchased and feels that it is in excess of Nicaragua's normal defense needs or its hemispheric defense commitments." (*Ibid.*, 717.56/7–1857)

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114. Letter From the Ambassador in Nicaragua (Whelan) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Managua, September 9, 1957.

DEAR DICK: During a conversation with President Luis a few days ago he told me that he had telephoned Ambassador Sevilla Sacasa in Washington and asked him to approach the Treasury Department for a stabilization loan in conjunction with the International Monetary Fund similar to the agreements made with Mexico and Peru.

In a subsequent conversation with Jorge Montealegre, I learned more details. Jorge says Nicaragua will ask for standby authority to draw its entire International Monetary Fund quota ($7.5 million), if necessary, and in addition will seek a stabilization loan from the United States Treasury of perhaps about $5 million, plus something like $3 million from private banks. The IMF drawing authority and the Treasury and private bank loans would all be parts of a single package. Nicaragua would not anticipate using by any means all of these funds, but would want them visibly available to maintain public confidence in the córdoba.

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[1] Source: Department of State, Rubottom Files: Lot 57 D 573, Nicaragua Finance Loans. Confidential; Official–Informal.

Luis said that he thought Nicaragua would need about US $7.5 million to offset that much anticipated decline in domestic activity during the remainder of the present fiscal year, especially if the drought continues and hurts the export sales of cotton and coffee. US $7.5 million is equivalent to slightly more than the 50 million córdobas of crop loans which Luis said are overdue at the banks and which will have to be extended, drought or no drought.

Many of these loans were extended in the past because of two bad crop years, added Luis, and these extensions caused a straining of Government finances. He suggested that if the Government had a backlog of US $7.5 million it could plan on four to five years to collect the back loans and not continue the severe strain on the rest of the country's economy.

Although Luis did not state how he thought Nicaragua could earn additional money to pay back such amounts as are drawn, he undoubtedly expects it to come in part from a coffee development program he is planning to start. The purpose of the program is to increase coffee production from an average of one-half pound to one pound per tree per year by the 1960/61 crop and to earn about US $30 million more annually from coffee export sales. This coffee program may not work so completely as Luis expects, but if it is pursued vigorously it should have at least sufficient success to help assure repayment of the drawings.

Montealegre tells me that in addition to expecting good results from the coffee development program, the Nicaraguan Government hopes by good fiscal management to exercise other pressures toward bringing exports back into a favorable balance and building up dollar reserves for repayment of the drawings.

Since assuming the Presidency, Luis has shown sound ideas in managing Nicaraguan affairs and I feel sure he will do his utmost to see that the drawings are paid back by their due dates. I told him I would write you to ask that our Government give the most sympathetic consideration to his request. I am emphatically of the opinion that it is time we gave Nicaragua some new assistance, and this seems to be a sound and constructive opportunity. This country has been our staunchest friend in Latin America, and both Luis and his father have done a good job of keeping it economically sound and politically stable. As "reward" from us they have had next to no financial assistance beyond the old Rama Road commitment and standard loans, along with other countries, for building the Inter-American Highway. They have seen other Latin American countries, less friendly to us and less successful in staying out of economic and political crises, receive grant aid, Smathers loans,[2] and P.L. 480 assistance, in addition to Export-Import Bank loans. Now, when they come to us with what looks like a business-like proposal for a loan at a time when they are in a jam, I think we should go all out for them. If you agree, please see to it that Ambassador Sevilla Sacasa gets solid backing from the Department.

Sincerely,

Thomas E. Whelan[3]

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[2] Reference is to loans authorized under an amendment to the Mutual Security Act of 1956, named after Senator George A. Smathers (D–Fla.), providing for the use of a portion of the defense support funds authorized in the Act for health, education, and sanitation projects and for land resettlement programs in Latin America. For text of the Mutual Security Act of 1956, see 70 Stat. 555.

[3] Printed from a copy which bears this typed signature.

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115. Despatch From the Ambassador in Nicaragua (Whelan) to the Department of State[1]

No. 183 *Managua, September 30, 1957.*

SUBJECT

Review of First Year of Luis Somoza's Presidency

Luis Somoza is just completing his first year in office as Acting President and President of Nicaragua. To date, with few exceptions, he has done a very good job both as an administrator and as a politician. He takes his presidential duties seriously, listens to advice and does not make the same mistake twice. He is decentralizing the Government and giving his Cabinet Ministers and department heads increased authority and backing up their decisions. He has eliminated some of the rackets and is removing dead wood from Government payrolls. About one thousand employees have been dropped by the railroad alone. By eliminating the political hacks he plans on saving about three million dollars a year, which, in case of poor crops, he will use for public works to lessen unemployment. He is quietly bringing into the Government some of the opposition.

His fiscal policy appears drastic to both Government and opposition. He is determined to keep from devaluating the currency. He is making the bank collect its loans and using the collections to give loans to small farmers.

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[1] Source: Department of State, Central Files, 717.00/9–3057. Confidential.

President Luis has proceeded a little too fast with some of his reforms. He has dropped several members of the Sacasa bloc which is probably the second strongest in the Liberal party. His cabinet for the most part are very good men, but, with the exception of a couple, are not politically minded. Some of the appointees are not consecrated Liberals and as a result there is a little dissatisfaction within the Liberal party. In short, he has been cleaning house a little too rapidly which is not always politically wise, and as a result he will probably slow up the process temporarily. The fact that he is demonstrating that he is trying to run an honest, efficient government has brought several of those in the opposition quietly into his camp.

General Tachito (who is now being called Tacho) Somoza, has been the recipient of most of the anti-Somoza feeling which is directed more against the name than the individual. The fact that he is head of the police force of the country does not enhance his popularity. In my opinion, the General has not matured nearly so much as his brother Luis, but there is a growing favorable sentiment in his behalf, especially among those who are dealing with him. American businessmen in particular are very favorably impressed with Tacho. Our Military Attaché, who is the Embassy's contact with the General, has written his impressions, which are attached,[2] and I think they are accurate.

Luis and Tacho have a perfect working agreement: General Tacho takes care of the Guardia, Lanica Airlines and Mamenic Steamship Lines. President Luis handles the Government and individual family property. There is the customary family disagreement over the estate, Luis using the profits to pay off the bank loans, with Lillian Somoza (Ambassador Guillermo Sevilla Sacasa's wife) and her mother not liking the idea. José, the recognized half-brother, is fully accepted. He is a good, tough boy, is a Major in the Guardia, and is very well-liked by both enlisted men and officers.

The Liberal party is controlled by Luis. They will not have a party convention for quite some time, but the Young Liberals will have their convention in November. The party organization is working all the time, and as of now there are no serious cracks in the machinery. The party treasury has more than five million córdobas and paid working personnel as well as political appointees.

During the months of December and January, reliable Conservatives (average age: 50 years), with the help of some oldsters, will attempt to reorganize the Conservative party with the hope that the reorganization will, to a great extent, eliminate the Chamorro[3] influence and that of Conrado Vado, a member of Congress who is probably the smartest leader of the Legal Conservative party. As of now, there are several splinter groups within the party, with the Legal Conservatives headed by Eddie Amador (Conservative candidate for President last February) getting the five per cent contribution from Conservatives in Government. (The five per cent is deducted from all salaries and given to the parties.) The party is still paying for the last campaign. They are quietly laying the groundwork for a convention which will result in a merger of the two groups. When the movement to reorganize is in the open it will have opposition from Argüello and Bolaños (called "The Weasel"), a successful lawyer and as much as anyone except Chamorro the guiding genius behind the old traditional party. He and Tefel, a good, tough boy who is in the Directiva of the Young Conservatives, are hoping to stage one final revolution before General Chamorro dies. They still think the Chamorro name is magic. It is not. They forget that the General's associates are all old or dead. The younger Conservative opposition have had no military training and with very few exceptions would not mix in anything dangerous. That was proven in the 1954 attempted revolution. The old General is passing the torch to his nephew Humberto Chamorro of Granada, who accepts it willingly. Humberto cannot command the loyalty his uncle did 25 years ago, and as a result he will not be effective.

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[2] Not attached and not found in Department of State files.

The Independent Liberal party has pretty much ceased to function.

The only cloud on the horizon is the possibility of assassination. If that happened while Congress was in session the Congress would name the Acting President. Before Congress adjourns they name three of their number from whom the President secretly selects one for Acting President. The three to be named, as of today, will be Luis Manuel Debayle, Dr. Leonardo Somarriba, and Oscar Sevilla Sacasa, with Luis Manuel Debayle getting the nod.

The President and his Government continue to be friendly to the United States. The Foreign Minister and the Minister of Agriculture are quite nationalistic. They, along with several others, think a little bit of Communism would be a good thing because it would make the United States a little more liberal, but as long as Luis is President we will not have any trouble on that score.

The Government under President Luis will honestly attempt to stay away from any entangling alliances with neighboring countries. The only thing that he wants is to be left alone to work out

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[3] Reference is to Emiliano Chamorro, President of Nicaragua, 1917–1921, and also in 1926.

Nicaragua's economic problems. We know that he will use every honorable method to keep away from trouble.

We are enclosing brief appraisals of Cabinet Members by the Embassy officers who have been in contact with them.[4]

T.E. Whelan

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[4] Not enclosed and not found in Department of State files.

PANAMA

POLITICAL AND MILITARY RELATIONS OF THE UNITED STATES AND PANAMA; IMPACT OF THE SUEZ CANAL CRISIS[1]

116. Special National Intelligence Estimate[2]

SNIE 84–55 *Washington, 11 January 1955.*

CONSEQUENCES OF THE ASSASSINATION OF PRESIDENT REMON OF PANAMA[3]

The Problem

To estimate the probable short-term consequences of the assassination of President Remon[4] with reference to: (a) internal stability of Panama and the Caribbean area; (b) international relations in the Caribbean area; and (c) relations between Panama and the United States.

Conclusions

1. Remon's death will not significantly affect the fundamental relationship between the United States and Republic of Panama, but

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[1] For previous documentation, see *Foreign Relations,* 1952–1954, vol. IV, pp. 1391 ff.

[2] Source: Department of State, INR–NIE Files. Secret. Special National Intelligence Estimates (SNIEs) were high-level interdepartmental reports appraising foreign policy problems of an immediate or crisis nature. They were produced more quickly than the companion National Intelligence Estimate series, which dealt with subjects of wider scope. SNIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the President, to appropriate officers of Cabinet level, and the members of the National Security Council. The Department of State provided all political and some economic sections of SNIEs.

[3] According to a note on the cover sheet, the following intelligence organizations participated in the preparation of this estimate: the CIA and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff. All members of the IAC concurred with the estimate on Jan. 11 with the exception of the representatives of the Atomic Energy Commission and the Federal Bureau of Investigation, who abstained on the grounds that the subject was outside their jurisdiction.

[4] Remón was shot to death on January 2.

will almost certainly set off troublesome developments both in Panama and in the Caribbean area.

2. Guizado,[5] Remon's successor as President of Panama, lacks Remon's political stature. His regime will probably be marked by a struggle for political leadership, with a consequent revival of the family and factional politics traditional in Panama.

3. The rulers of the Caribbean republics, increasingly concerned for their personal safety, will probably adopt more repressive measures against their political opponents. Somoza (Nicaragua) and Pérez Jiménez (Venezuela) will probably intensify their clandestine efforts to eliminate Figueres (Costa Rica), whom they regard as the focal point of revolutionary leftist movements in the area. They are not likely to be deterred by Figueres' appeal to the Organization of American States, but will take care to avoid the appearance of direct intervention. Figueres will continue to press the United States for protection against external threats to his security.

Discussion

4. The identity and motivation of the assassins of President José Antonio Remon have not as yet been established. The assassination could have been politically motivated, but it could as well have been related to Remon's private life, or to a behind-the-scenes struggle for the control of lucrative business operations. In any case, the assassination will almost certainly have troublesome domestic and regional repercussions.

5. The Panamanian authorities have apparently acted on the suspicion that Remon's assassination may have been instigated by Arnulfo Arias, whom Remon deposed from the presidency of Panama in 1951, and the fear that, in any case, Arias might become a rallying point for revolutionary action. They have arrested Arias; most of the others arrested to date have had some connection with him. Arias is a mercurial character who has been implicated in almost every plot against the government in recent times. There was, however, no apparent attempt at a coup in connection with the assassination, nor has there yet appeared any tangible evidence implicating Arias in the crime. His arrest, therefore, appears to be entirely presumptive and preventive.

6. The assassination will adversely affect political stability in Panama. Remon was the country's dominant political figure. Although he achieved power through control of the National Police (now called the National Guard), he later, as constitutionally elected President, succeeded in building up a large popular following.

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[5] José Ramón Guizado, the First Vice-President and Foreign Minister of Panama, succeeded Remón as President on January 2.

Throughout his administration he paid greater attention to democratic forms than had any of his recent predecessors. He instituted a social and economic program directed toward all sectors of the population. The treaty he negotiated with the US—as yet unsigned—brings important concessions to Panama and had already enhanced Remon's popular position.[6]

7. José Ramón Guizado, the first vice president, has been sworn in as Remon's successor. The National Guard, the only armed force of Panama, has decided to support him, for the time being at least. However, Col. Vallarino, commandant of the Guard, and Lt. Col. Flores, deputy commandant, do not trust Guizado. They apparently fear that he might later connive with Arnulfista elements to break their control of the Guard and possibly to restore Arnulfo Arias to the presidency. If convinced that such a coup was in the making, they would displace Guizado, probably in favor of Ricardo Arias, the second vice president, whom they regard as their friend.

8. Guizado lacks the political stature of Remon and may not be able to control the situation throughout his term in office (until October 1956). The political coalition which Remon had formed is likely to dissolve into personal factions contending for leadership, with a consequent revival of traditional family and factional politics. As in the past, the stability of the government will depend on the continued support of the National Guard and control of the Guard will be the key to the political situation. Within the Guard, differences may develop between Vallarino and Flores. Of the two, Flores is the stronger character, with probably greater command over the loyalty of the rank and file. However, the fact that Flores is a Negro is a personal political handicap which would probably confine him, at least initially, to the role of kingmaker.

9. Although Panamanian politics may thus become chaotic, it is not likely that any strongly anti-US group could gain sufficient strength to seize control of the country. The Communists are not strong numerically and have been closely circumscribed by measures taken against them during the Remon administration.

10. The assassination of Remon, following the attempt (in April 1954) to assassinate President Somoza of Nicaragua, will cause the more authoritarian rulers in the Caribbean area (Somoza, Pérez Jiménez in Venezuela, Trujillo in the Dominican Republic, Batista in Cuba, and Castillo Armas in Guatemala) to be increasingly concerned regarding their personal safety. They may be expected to take

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[6] The United States and Panama began negotiations in September 1953 to revise the Panama Canal Treaty of 1903 (33 Stat. 2234). On December 17, 1954, President Remón accepted the modified texts of the proposed new treaty and the accompanying memorandum of understanding.

action designed to tighten their personal control over their respective countries and to adopt even more repressive measures against opposition elements than those currently in effect.

11. The assassination of Remon will heighten existing international tensions in the Caribbean area. It coincides with an increasing volume of reports of an impending revolutionary attempt against the Figueres regime in Costa Rica, with Venezuelan and Nicaraguan support. Remon was generally identified with the authoritarian alignment (Venezuela, Nicaragua, Guatemala, Cuba, and the Dominican Republic), particularly with Venezuela. Somoza and Pérez Jiménez will make every effort to link the murder of Remon with the attempt to assassinate Somoza and to attribute it to an "international leftist conspiracy" involving President Figueres of Costa Rica and exiles from Venezuela, Nicaragua, Cuba, and the Dominican Republic. Reports to this effect from Venezuelan and Nicaraguan sources have already begun to circulate.

12. Somoza and Pérez Jiménez will probably redouble their efforts to convince the United States that an "international leftist conspiracy" threatens stability and security in the Caribbean, and that the murder of Remon presages an intensification of subversive activity throughout the area. They will direct such charges primarily against Figueres, whom they dislike because of his assistance to and friendship for exiled groups and his bitter condemnation of dictatorships, notably those of Nicaragua and Venezuela, and whom they denounce as a Communist.

13. Somoza and Pérez Jiménez will probably argue that US "restraints" on them have prevented them from taking effective action against subversive elements in the region. They will cite the murder of Remon as a new argument for a re-examination of this US attitude. They will in effect demand that the US either take such action in the area as would assure their security or give them a free hand in dealing with those persons and movements that, in their opinion, threaten regional stability.

14. Hitherto, the assassination of chiefs of state has not been an accepted mode of Caribbean political warfare. If Remon's assassination was in fact the result of an international conspiracy (which has not been established), this, in conjunction with the attempt to assassinate Somoza, might indicate that opposition elements in the Caribbean have adopted terrorism as a method of political action. Should such a pattern be established, the Caribbean governments would respond with commensurate violence and a marked deterioration in Caribbean political practices would have set in.

15. The events in Panama are likely to complicate the already difficult position of José Figueres in Costa Rica. He has formally demanded action by the Organization of American States to restrain

Nicaragua. At its meeting on 10 January the Council of the OAS postponed action until the 12th, but called on both Costa Rica and Nicaragua to avoid in the meantime any step which would aggravate the existing situation. Nevertheless, Somoza and Pérez Jiménez are likely to intensify their efforts to eliminate Figueres by providing further clandestine support to Costa Rican exiles and by encouraging opposition elements within Costa Rica, although they will take care to avoid the appearance of direct intervention. Figueres will continue to press for US protection against external threats to his security.

16. It is not likely that relations between the United States and Panama will be significantly affected by the assassination of Remon. The still unsigned treaty may become an issue in Panamanian politics, but its eventual acceptance by Panama will not be seriously endangered. It is likely also that the uncertain political situation created by the murder of Remon will again inject local politics into relations between the US and Panama. There is small chance, however, that these irritants will importantly affect US security interests in Panama.[7]

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[7] At the 230th meeting of the National Security Council, January 5, Director of Central Intelligence Allen W. Dulles briefly discussed the Remón assassination. According to the memorandum of discussion, Dulles remarked as follows:

"With respect to the assassination of President Remon of Panama, Mr. Dulles indicated that there were two possible speculations. One was that the assassination was the result of a personal vendetta by the followers of Arnulfo Arias. The other possibility was that the dictators of Nicaragua and Venezuela may insist that the plot was connected with efforts by democratic President Figueres of Costa Rica to destroy them and their dictatorial governments. Mr. Dulles doubted if Figueres had had the capability of accomplishing the assassination of Remon, and was inclined to believe the former speculation." (Memorandum of discussion by Gleason, January 6; Eisenhower Library, Whitman File, NSC Records)

117. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, January 17, 1955.

SUBJECT

Political Developments in Panama

Fast moving political developments in Panama have placed a new man in the Presidency over the weekend. The most recent changes have resulted from the cracking of the hitherto unsolved murder of President Remón on January 2. An attorney in Panama City has confessed to the crime[2] and has implicated President Guizado and two of his business associates. The assassin was heavily in debt from gambling and allegedly had been promised a Cabinet post for carrying out the deed. The National Assembly rejected President Guizado's request for leave of absence pending an investigation of the charges against him and has instituted impeachment proceedings. Guizado has been suspended from office and placed under arrest. The Second Vice President, Ricardo Arias Espinosa, was sworn in as President early Saturday morning, January 15. The new President appears to have the support of the National Guard and there have been no disorders or disturbances.

The new President is 43 years old, a scion of one of Panama's wealthiest and most influential families. He was educated in the United States at the Shenandoah Military Academy and Georgetown University. He has widespread business interests in Panama and has held a number of high Government posts, chiefly by appointment. He was Minister of Agriculture, Commerce and Industry under Arnulfo Arias from 1949–1951 and Minister of Labor, Social Welfare and Public Health under Colonel Remón from 1952–1955. He is believed to be friendly toward the United States and the Embassy reports that he wishes to push ahead with the signing of the treaty. The new President is regarded by most observers as being much preferable to his immediate predecessor from the viewpoint of the welfare of Panama and U.S. interests on the Isthmus, in view of the tainted reputation of the latter and his past history of anti-Americanism. No question of recognition arose as Constitutional procedures were followed. Ambassador Chapin is conducting relations normally. Dr. Fabrega, who was chief spokesman of Panama's Special Negotiating Mission here last year, has been named Foreign

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[1] Source: Department of State, Central Files, 719.00/1–1755. Confidential. Drafted by Sowash.

[2] Ruben Miró.

Minister and we are proceeding with the engrossing of the treaty. Barring adverse developments, it is hoped that the treaty can be signed before the end of the month.[3]

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[3] A handwritten note on the source text reads as follows: "Neither Sec nor Under Sec had time to see."

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118. Letter From the Ambassador in Panama (Chapin) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Panama City, January 19, 1955.

DEAR HENRY: It has occurred to me that it might be useful to you to have a brief summary of the recent political events in Panama and I therefore enclose a memo prepared by Roy Davis.[2]

Remón's death left a serious power vacuum in Panama. Guizado filled the job by virtue of being next in line, but with no real political strength of his own to sustain him.

In the first days following the assassination the principal dynamic forces in Panama were either directed elsewhere or temporarily impotent. The National Guard devoted itself to taking precautions against an expected coup d'etat or public disturbances, neither of which materialized, and to a confused search for Remón's assassins. Although the National Guard has generally been considered competent as a body to maintain law and order in Panama, it was baffled by such a unique problem as the assassination of a President. Many clues were overlooked for days or even destroyed through carelessness.

It appears that Guizado's crucial error was his determination to run the government on his own terms, evidenced by his refusal to take Alejandro "Toto" Remón[3] into his cabinet and also by reportedly contemplating certain changes in the governmental makeup, particularly those related to financial institutions which were in control of Remón's friends. Guizado did not have the requisite political backing either by the National Guard, Mrs. Remón or a strong personal following. At the same time there existed an unfavorable public attitude towards him ranging from apathy to outright distrust of his abilities and integrity. The result was that the first breath of scandal, even though it consisted and still consists only of the unconfirmed allegations contained in the conflicting statements of a self-confessed assassin, was sufficient to topple Guizado from power. It is to be noted that Guizado was apparently kept in ignorance by his own police force of the contents of this confession until after he had actually been placed under house arrest.

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[1] Source: Department of State, ARA Files: Lot 60 D 667, Panama 1955—Political Local. Secret; Official–Informal.

[2] Not printed.

[3] Brother of the late President, José Antonio Remón.

Ricardo Arias, who up until now has been more or less regarded as "Pancho Arias' boy Dicky" who someday might grow up to fulfill his dead father's life-long ambition, is now unexpectedly President. He is demonstrating considerable poise and maturity. In general people are taking a second look and realizing that he has grown up. He is popular, for the present enjoys the support of the National Guard, and has been publicly endorsed by Sra. Remón as a trustworthy heir of her husband's aims and ideals. His social position and family connections tie him closely with the traditional ruling classes of Panama and he is apparently willing to play along with existing political forces. He also seems to be personally honest and sincere. In a conversation which I had with him Sunday during the finals of the Panama Open Golf Tournament, Arias told me of his complete bewilderment at the sudden change of events and his incapacity to believe that Guizado was involved to the extent claimed by the self-confessed assassin Miró.

The main stabilizing factors here now appear to be: (1) The chief political figures in Panama who, incidentally, are some of the wealthiest citizens and which include many of the people who were not in the Remón Government and who might even be said to be in opposition, do not desire any serious political disturbances which might endanger life and property. (2) The apparent loyalty of the National Guard to the memory of Remón as embodied in his widow and his brother and their support of Sra. Remón's desire to continue her social and welfare work. (3) The prospect of the forthcoming signature of the highly desirable new treaty with the United States which no one wishes to jeopardize. Consideration of this factor has constantly colored the decisions of the men in power as well as influenced the various sectors of public opinion. All have repeatedly stressed the necessity of following orderly constitutional procedures in order not to prejudice the position of Panama vis-à-vis the United States.

It is obvious that if the present Government is to survive it must obtain a conviction of someone for the assassination of Remón. It is here that I sense danger. The evidence against Guizado is indeed tenuous. As stated before, it is based entirely on the statement of a self-confessed assassin who although reportedly a clever lawyer has recently been undergoing treatment by a local psychiatrist. Mr. Chatham, the American polygraph expert, feels that his lie detector test of Miró was worthless since Miró had been kept up all night and at the time of the test was surrounded by policemen with tommy guns. Chatham told me in confidence that the test run yesterday on Guizado's partner, St. Malo, and Guizado's son left no doubt that the two men were telling a straight story and were completely guiltless. Whether Chatham will be allowed to make another run on Miró or whether he will be allowed to examine Guizado Sr. remains to be seen. Chatham feels that U.S. standards of justice would require that Miró be examined by a panel of psychiatrists.

It is difficult to make any prediction. Unless new evidence is adduced it would seem impossible to convict Guizado of implication in Remón's death. It could even be that Miró might disavow his confession as obtained under duress. It is clear, however, that even though there is some slight sympathy beginning to build up for Guizado, he is dead politically and could not, if acquitted, reassume the Presidency with any hope of continuing in office for more than a few days. On the other hand, such an acquittal might discredit the men presently in power and the police force and make them even [*appear*] ridiculous in the eyes of the people. This would certainly appear to lead to a considerable period of political uncertainty and instability in Panama. Possibly something similar to a Scotch verdict of "not proved" will be reached by the Assembly; Guizado allowed to reassume the Presidency for a nominal period to clear the record and vindicate his honor and then resign; Dicky Arias or less likely some other person would then finish out Remón's term with the support of the Guard and Mrs. Remón.

I believe in the circumstances our own attitude must be one of "hands off" while going ahead with the treaty. We have properly continued our relationships with the present Panamanian Government since constitutional processes have been adhered to and since the Government enjoys the support of the people. Since, happily, with the departure of Mr. Lipstein no American interests appear to be involved in the judicial processes now going on, I do not feel that we could properly interfere in the trials or even offer any advice to the Panamanian Government as to how they should proceed. I state this even though it may be possible that we will witness a miscarriage of justice. It is to be hoped that the good sense of the Panamanian people and of Dicky Arias will rise to meet the situation. In the circumstances, however, I am sure you will understand that I am unfortunately not yet in a position to advise either for or against the Vice President's proposed visit to Panama.[4]

Sincerely,

Selden Chapin[5]

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[4] See vol. VI, Document 195.

On January 28, Holland replied to Chapin's letter in part as follows:

"I am completely in agreement with your recommendation of a 'hands off' policy. You mentioned the forthcoming signing of the treaty as being a stabilizing influence. I hope that now that the signing is accomplished, its stabilizing effect will not dissipate and that there will not be a scramble for power without regard to the constitutionality of method. It will behoove us all to consider in what ways we can help to maintain the momentum toward political and economic stability which Remón had generated. What you say about President Arias is encouraging in this respect. Let us continue for the present to watch carefully and to hold our peace." (Department of State, ARA Files: Lot 60 D 667, Panama 1955—Political Local)

[5] Printed from a copy which bears this typed signature.

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119. Editorial Note

On January 25, representatives of the United States and the Republic of Panama signed a Treaty of Mutual Understanding and Cooperation and Memorandum of Understandings reached concerning relations between the two countries arising from the construction, operation, maintenance, and protection of the Panama Canal by the United States in accordance with existing treaties. The agreements, which were signed in Panama City by Ambassador Chapin and Panamanian Foreign Minister Octavio Fábrega, resulted from negotiations between the United States and Panama which began in September 1953. For texts of both the treaty and the accompanying memorandum, see Department of State *Bulletin,* February 7, 1955, pages 238–243, or 6 UST (pt. 2) 2273.

120. Telegram From the Ambassador in Panama (Chapin) to the Department of State[1]

Panama City, March 17, 1955—6 p.m.

364. During past week rumors have been circulating with increasing intensity that real motive behind Remon's assassination was his sudden interference with drug traffic and names of certain high Panamanian officials are being whispered widely. Last night's *Nacion* after featuring headlines stories re Panama's reputed position as center western drug traffic quotes associate attorney for prosecution, Doctor Jose Lasso de la Vega as stating "Guizado and Miro were used by those who really planned the crime in order remove the obstacle to the realization of their nefarious business."

As date of Guizado trial March 21 approaches it becomes more evident that forces in government and in control of National Assembly are making every effort to make trial cut and dried and are determined by hook or crook to find Guizado guilty. This belief strengthened by today's press reports of President Arias' insistence in speech last night that those guilty of conspiracy against Remon be punished severely and announcement that Assembly trial would run continuously with only minor recesses. See Memminger's letter March 16 to Sowash.[2]

Defense, already handicapped by inability to subpoena and examine witnesses and by an apparently conscious withholding of certain existing evidence available but damaging to prosecution will be hamstrung by fact only written testimony will be admitted in trial and witnesses not permitted appear in person. This procedure for example would seem to throw out Miro's later retractions and repudiations of earlier confessions involving Guizado. According to certain Panamanian legal opinion, believed reasonably unbiased, above "procedure" not illegal although certainly unique.

In conversations with prominent Panamanians and local businessmen and with diplomatic colleagues, I find cynical and apathetic acceptance of belief that real authors of crime will not be brought to book and that Guizado and Miro will be made scapegoats since the alternative, acquittal, at least might completely discredit police force and present government and at most would call for arrest and prosecution of powerful forces who might anticipate such action by armed seizure of government.

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[1] Source: Department of State, Central Files, 719.11/3–1755. Secret; Priority.

[2] In this letter, Memminger discussed recent developments in the Guizado trial. "The trial of Guizado by the Assembly," he suggested in part, "could have far wider and deeper repercussions than are dreamed of here at present. It seems to me that the 'fix is in' and that the very best Guizado can hope for is a suspended sentence. At the worst he might get ten years at Coiba where he would be unlikely to live for more than six months." (*Ibid.*, ARA Files: Lot 60 D 667, Panama 1955—Political Local)

It is possible that all evidence against Guizado has not yet been made public and that trial could possibly result in conviction based upon just and correct procedures. Embassy has neither sufficient knowledge of Panamanian legal procedures nor of the evidence in this case to pass upon guilt or innocence of accused. Admittedly Guizado enjoys no widespread popularity and hence is unlikely receive much general sympathy unless proceedings utterly abominable.

In circumstances and although I believe we shall in fact witness a miscarriage of justice which in effect might result in illegal government in power, I do not see how we can make representations here officially without opening ourselves to charge of political interference in domestic affairs of Panama. Moreover I suggest that most Panamanians including those in responsible positions have no realization that such a star chamber proceeding will be viewed abroad as evidence of denial of freedom and justice according to straight totalitarian principles. Should trial proceed as I think it will and should it be reported accurately in US press, there might ensue such reaction as could well prejudice ratification of treaty by Senate.

Department might wish consider whether it wishes pass on friendly and informal word of warning to Panamanian Embassy Washington.

Chapin

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121. Telegram From the Acting Secretary of State to the Embassy in Panama[1]

Washington, March 18, 1955—8:01 p.m.

290. Department cognizant potential dangers in Panamanian situation outlined Embtel 364[2] but believes Embassy's suggestion not feasible for following reasons:

1. Trial strictly internal matter.
2. This Government not in position judge validity of charges against Guizado and others involved.

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[1] Source: Department of State, Central Files, 719.11/3–1755. Secret. Drafted by Sowash. Initialed by Newbegin indicating his approval.

[2] *Supra.*

3. If plot engineered by others in high positions still unchanged, fate of Treaty not likely now to be deterrent in effort avoid disclosure by railroading others for crime.

Department therefore does not believe proposed warning would affect developing situation and might result in embarrassment to this Government if charges more soundly based than suspected.[3]

Hoover

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[3] Additional documentation regarding the Remón assassination and the Guizado trial is in Department of State, Central File 719.11; *ibid.*, ARA Files: Lot 60 D 667, Panama 1955—Political Local; *ibid.*, Panama City Embassy Files: Lot 63 F 57, 361.1 Remón Assassination; and *ibid.*: Lot 63 F 59, 361.1 Remón Assassination.

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122. Telegram From the Ambassador in Panama (Chapin) to the Department of State[1]

Panama City, April 5, 1955—1 p.m.

386. This morning I called on Foreign Minister Octavio Fabrega at his request. Fabrega states he wishes visit Washington for one day during week April 11 pay his respects to Secretary Dulles and confer with Assistant Secretary Holland. Purpose visit urge early submission Treaty to Senate. Reasons for early ratification given by Fabrega are: Importance to Panamanian economy, stability of Government and desire that Treaty be completed in "aur" of Remon Administration before next election campaign starts here. I believe most important factor in Fabrega's reasoning is "stability" which he feels would be engendered by demonstration US confidence in Arias Administration by Treaty's early ratification.

I stressed necessity paying Panama Canal water bill[2] and balance claims before submission Treaty to Senate. Fabrega stated sending notes on both subjects Embassy today.

Fabrega requests Embassy be advised when appointment can be made for him with Holland and if possible with Secretary.

Chapin

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[1] Source: Department of State, Central Files, 611.1913/4–555. Confidential.

[2] Reference is to unpaid accounts for water service due to the Panama Canal Company and Canal Zone Government by the Panamanian Government. The water bill issue was summarized in despatch 484 from Panama City, April 14. (*Ibid.*, 611.1913/4–1455)

123. Telegram From the Ambassador in Panama (Chapin) to the Department of State[1]

Panama City, April 6, 1955—3 p.m.

388. Re Embtels 386[2] and 387[3] April 5. Since financial situation as depicted by Fabrega seemed disquieting Embassy conducted further check on technical level and discovers that he apparently is either ignorant of real situation or purposely desires exaggerated difficulties perhaps with hope of obtaining vigorous action by Department in pressing for Senate ratification of treaty before paying of water bill in full. [Garble] call Panama has been consistently reluctant in treating these arrears as genuine obligation and even after the agreement between governor and comptroller Obarrio last fall when funds were in fact available delayed several months before beginning installment liquidation of arrears.

Quarterly figures Panamanian cash position reveal actual receipts by Government 1955 at $9,700,000 or less than 1/2 percent below receipts for first 3 months 1954. This slight drop in receipts explainable by 1 month delay granted for real estate tax payments by action Panamanian Government.

Due to normal seasonal development receipts during first 5 months are low and below 1/12 annual figures and government expenses are abnormally high hence making for actual real deficit. However anticipated revenues for month of June 1955 alone with 2 large payments mentioned Embtel 387 are $8 million which should permit payment in full by Panama of water bill and Claims Commission debt.

Recommend insistence on payment water bill before end of June. I am becoming more and more convinced that present government feels that early ratification of treaty is almost a psychological necessity to counteract bad odor of Guizado trial and to establish another "victory" for the Remon legacy.[4]

Chapin

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[1] Source: Department of State, Central Files, 611.1913/4–655. Secret.

[2] *Supra.*

[3] In telegram 387 Ambassador Chapin reported further on his conversation with Foreign Minister Fábrega on April 5. Fábrega had explained that Panama's delay in paying the water bill was due to the fact that tax collections had dropped off substantially in the last 3 months. (Department of State, Central Files, 611.1913/4–558)

[4] Despatch 498 from Panama City reported that Panama had paid all its outstanding bills to the United States. (*Ibid.*, 611.1913/4–2055)

124. Letter From William B. Sowash of the Office of Middle American Affairs to the Counselor of the Embassy in Panama (Memminger)[1]

Washington, April 25, 1955.

DEAR BOB: In your letter of April 14,[2] you expressed disappointment that you had not received any reactions on the Guizado trial. My silence has by no means been due to lack of appreciation for the Embassy's very excellent reporting on the subject. Roy did a really masterly job on this. I found the whole spectacle so depressing that there seemed little point in commenting. There have been so many conflicting rumors and reports that at this point I have no idea where the truth actually lies in the whole nasty business. My views can be summed up, I think, as follows: Guizado may, or may not be guilty, I just don't know. It is obvious, though, that whether guilty or not, he did not have a fair trial. I also believe that if guilty, there possibly were others high up in the government equally so, and whose guilt is being covered up by the authorities themselves. The whole business makes one ache for a breath of good clean air. Panama is not a place where secrets of such consequence can long be kept, and I shall be greatly surprised if this matter rests in this present state.

I do not think that we face the dilemma which you indicate for the very reason that, it seems to me, we have no choice but to go ahead with the treaty, unless the highest officials of the country are publicly charged with high crimes and misdemeanors. In the present very incomplete state of our information regarding the true authors of this crime, we would be guilty of operating on the basis of hearsay and rumor if we did otherwise. Now that Panama has paid its debts, we are going ahead with the treaty, and it will be sent to the President and by him to the Senate next week. Perhaps the lid will blow off in Panama even before the Senate completes its deliberations.

[Here follow personal remarks.]

Sincerely yours,

William B. Sowash[3]

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[1] Source: Department of State, ARA Files: Lot 60 D 667, Panama 1955—Political Local. Secret; Official–Informal.

[2] Not found in Department of State files.

[3] Printed from a copy which bears this typed signature.

125. Memorandum of Conversations Between the Assistant Secretary of State for Inter-American Affairs (Holland) and Foreign Minister Octavio Fábrega, San Francisco, June 23 and 24, 1955[1]

SUBJECT

Panama Treaty

I had two talks with Fábrega. In each of them he expressed his deep concern at the fact that the Panamanian Treaty had not yet gone before the Senate and his earnest hope that it would before the end of this session. The arguments which he used included:

1. The very difficult political problems which would be caused domestically if the treaty were not approved at this session. He pointed out that failure to approve the treaty would be interpreted widely in Panama as a demonstration of lack of confidence in the present administration on the part of the United States.
2. He said that Panama had undertaken financing arrangements and obligations on the assumption that the treaty would be approved at this session of Congress, and that they would receive for the ensuing year the new and increased annuity. He said that postponement for a year of this increased receipt would put the Panamanian Government in an embarrassing financial position.
3. He pointed out that the Panamanians were counting on the increased annuities to meet their obligations in connection with the accelerated program regarding completion of the Inter-American Highway.
4. Finally, he urged that the Panamanians felt that the approval of the treaty in a sense marked approval by the United States of the general program and policies of the late President Remón.

It is my impression from everything that Fábrega said that the real reason for his great concern is the obvious one that the present administration feels that failure to approve the treaty in this session of Congress will create exceedingly difficult problems for it in the forthcoming presidential elections.

I told Fábrega that on two occasions the Department of State had expressed its interest in early consideration of the treaty, and that we would continue to do so. I asked him if he was aware of any opposition to the treaty. He said that he was not. I said that I had heard rumors to the effect that any opposition to the treaty would probably come either from the sector of organized labor or from United States shipping interests. I suggested that he might well try to keep himself informed as to the possibility of any such opposition.

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[1] Source: Department of State, Central Files, 611.1913/6–2355. Confidential. Drafted by Holland. Holland and Fábrega were in San Francisco for the special session of the United Nations, June 20–26, commemorating the tenth anniversary of the founding of that organization.

He said that he was going to New York on Monday of the coming week and would be in that region for about seven days. I agreed that I would look further into the present situation of the treaty and, if I could, would give him a ring in New York.

In the course of the second of our two conferences, he gave me a copy of a cable which he said he had just received from President Arias, of which a copy is attached to this memorandum.[2]

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[2] Not printed.

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126. Editorial Note

On July 15 Assistant Secretary Holland testified before the Senate Foreign Relations Committee on behalf of the Treaty of Mutual Understanding and Cooperation and the Memorandum of Understandings reached between the United States and Panama, signed at Panama City on January 25. For text of his remarks, see Department of State *Bulletin,* August 1, 1955, pages 185–188. On July 29, the Senate formally ratified the treaty.

On August 23 in Washington, Secretary of State Dulles and Panamanian Ambassador to the United States Joaquín José Vallarino exchanged the instruments of ratification with respect to the treaty and the accompanying memorandum of understanding. Under the terms of the treaty and the memorandum, they entered into force immediately upon the exchange of the instruments of ratification.

127. Instruction From the Acting Secretary of State to the Embassy in Panama[1]

A–71

Washington, November 3, 1955.

SUBJECT

Acquisition of Radar Stations in Panama

The interest of the Army in obtaining two hill-top areas in Panama for radar stations for the defense of the Canal, reported by the Embassy in its telegram No. 64 of September 16,[2] is the subject of a letter addressed to the Department on October 19 by the Department of the Army.[3] A copy of this letter is attached for the information of the Embassy. (OSA, C&R Control No. 4170.)

The Embassy will note that the request of the Caribbean Command for negotiations for the use of these stations has been approved by the Department of the Army. It is, of course, unfortunate that the need for these stations could not have been foreseen in time for inclusion in the recent negotiations with Panama which culminated in the treaty signed last January. The Department of the Army states that the original planning for this program was based upon the utilization of stations within the Canal Zone but that subsequent studies have shown the greater desirability of stations outside the Zone for the reasons stated in the first paragraph of the attached letter.

The Department concurs in the opinion of the Department of the Army that a request for the use of these stations in perpetuity would meet with strong opposition in Panama. Moreover, the Department of the Army considers that the rapid pace of developments in weapons and concepts of defense make unnecessary a request for the use of these stations in perpetuity. The Department, therefore, concurs in the recommendation that these stations be obtained on the same terms as the grant of the Rio Hato area in the 1955 Treaty, that is, for a period of fifteen years subject to extension thereafter as agreed to by the two Governments. Article VIII of the 1955 Treaty contains additional terms of occupancy and the Embassy should consult with CINCARIB with a view to determining which of those terms may be pertinent and necessary in connection with these new stations. The requested authority to construct necessary access roads with power, cable and water line rights of way may present difficulties. This was one of the thorniest problems encountered in the 1947 defense sites negotiations.[4]

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[1] Source: Department of State, Central Files, 611.1913/10–1955. Secret. Drafted by Sowash on October 28 and approved by Newbegin.

[2] In telegram 64, Ambassador Harrington recommended that he be authorized to approach Panamanian Foreign Minister Alberto Boyd with a view to obtaining the use of lands required by the Department of the Army for radar sites. (*Ibid.*, 611.1913/9–1655) Harrington was appointed Ambassador to Panama on July 27; he presented his credentials to the Panamanian Government on August 30.

[3] In this letter to Holland, George H. Roderick, Assistant Secretary of the Army for Civil–Military Affairs, stated "currently approved Army programs provide for the deployment of a Surface to Air Guided Missile Battalion (Nike) to the Caribbean Command during Fiscal Year 1957." He stated further that Lieutenant General William H. Harrison, USA, Commander in Chief, Caribbean (CINCARIB), had requested that authority be obtained from the Panamanian Government to establish two radar sites on a permanent basis in the Republic of Panama.

In view of the very generous treatment accorded Panama under the Treaty of 1955, and of the fact that the defenses of the Canal are not only a mutual concern of the Republic of Panama but also afford protection to Panama City as well, the Department believes that Panama should be asked to grant the use of these stations without cost to this Government, if the lands in question are public lands. If, however, the Government of Panama should find it necessary to extinguish private titles in order to make these lands available, consideration might be given by this Government to reimbursing the Government of Panama to this extent. However, this possibility should not be mentioned at this time to the Government of Panama and if private land titles are found to be involved, the Embassy should report this fact at once to the Department.

The request for these stations and related rights undoubtedly will not be welcomed by the Government of Panama. Nevertheless, it is precisely this type of unforeseen contingency which was provided for in Article II of the 1936 Treaty[5] and it is upon this Article that the request should be based. The Article provides full and sufficient grounds for the request and under it Panama is obligated to agree.

The Embassy is requested to initiate conversations at once with the Government of Panama for the use of these two stations, on the terms indicated above and in the attached letter. The Embassy should, of course, work in close collaboration with the Canal Zone authorities in this matter and should keep the Department fully informed of the course of the negotiations.

The Department desires that the term "defense sites" be studiously avoided in all references to this subject. The expression "radar stations" not only is more accurate but is free of the unhappy connotations of the former term in Panama.[6]

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[4] For documentation, see *Foreign Relations*, 1947, vol. VII, pp. 881 ff. The text of the proposed Defense Sites Agreement of 1947, signed but not ratified, is *ibid.*, pp. 932–941.

[5] For text of the treaty, see 53 Stat. 1807.

Hoover

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[6] On November 29, Ambassador Harrington presented an aide-mémoire to Panamanian Foreign Minister Boyd which formally requested that the United States be granted sites in Panama for radar equipment to be used in connection with the installation of Nike defenses in the Canal Zone.

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128. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Panama (Harrington)[1]

Washington, December 27, 1955.

DEAR JULIAN: The intricacies of our relations with Panama always are a surprise to the uninitiated, and not always a pleasant one at that.[2] I think I have a pretty good insight into some of the problems which confront you there, for the Panamanian negotiations were among the first order of business for me when I came to Washington and I had to spend many a weary hour on some of these same problems. I agree that, in coping with these problems, the situation on the Isthmus is such as to emphasize the importance of personalities. I am delighted, therefore, to learn of your high opinion of and close working relationships with the Governor[3] and General Harrison. With you as our representative on the team, I think we have a combination that, with patience, can lick these problems.

I am sorry that the liquor matter has come to the pass that it has. I have tried to impress upon Ambassador Vallarino my view that Panama's attitude in this matter is extremely short-sighted. The only logical explanation of the Panamanian position would appear to be that they are convinced we are bluffing in our talk about reconsideration of Executive Order 6997[4] and will settle for less than what we are entitled to under the agreement. We propose to ask the Secretary for authorization to take the preliminary steps toward rescission of the Order. If he approves, we will authorize you to inform the Panamanian Government of the steps we are taking, in order to dispel any doubts they may have as to the seriousness of our intentions. If they remain adamant, then we shall proceed with cancellation of the Order. In making your recommendation to this end, you and the Zone authorities have, I am sure, weighed its possible effect upon some of our pending requests of Panama.

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[1] Source: Department of State, Central Files, 611.19/12–1355. Official Use Only. Drafted by Sowash.

[2] A letter from Harrington to Holland, December 13, reads in part as follows:

"I never suspected that a place as pleasant and peaceful as Panama could have so many headaches. It looks as if the honeymoon of the treaty is over, if our difficulties over the liquor tax issue are an example. I can only ascribe this Panamanian attitude on this question to the fact that they got off on the wrong foot. Now they either do not know how to alter their position gracefully or they are unwilling to do so under pressure." (*Ibid.*, 611.19/12–1355)

The liquor matter was summarized in despatch 146 from Panama City, October 11. (*Ibid.*, 611.1913/10–1155)

[3] Brigadier General John S. Seybold, Governor of the Panama Canal Zone.

In spite of the problems which seem endemic there, I have always found Panama a most interesting place and I hope that I shall have the opportunity of visiting there soon.

My wife and I thank you for your holiday greeting and we wish you and Alys a most happy and successful New Year in your important post.

Sincerely yours,

Henry F. Holland[5]

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[4] This order, signed by President Franklin D. Roosevelt on March 25, 1935, prohibited the direct importation of hard liquor into the Canal Zone.

[5] Printed from a copy which bears this typed signature.

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129. Memorandum From the Director of the Bureau of the Budget (Hughes) to the Special Assistant to the President (Adams)[1]

Washington, March 1, 1956.

SUBJECT

Sea level canal in Panama

This is in response to your memorandum of February 8[2] requesting information as to whether or not there are any plans which indicate the interest of this Administration in a sea level canal in Panama.

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[1] Source: Eisenhower Library, Project Clean Up Records, Panama Canal. Top Secret.

[2] Not found in Department of State or Eisenhower Library files.

The most recent and complete study of the merits of constructing a sea level canal along the existing route was completed in 1947.[3] The report also considered several alternatives. The Governor of the Canal Zone at that time[4] recommended construction of the sea level canal at an estimated cost of about $2.5 billion. The report containing this recommendation was submitted to the Congress on December 1, 1947, by President Truman without comment or recommendation. The Bureau of the Budget subsequently obtained the views of interested agencies on the proposal, all of which were generally non-committal. No action has been taken by the Congress and the report has not been printed.

In February 1955, the Bureau of the Budget recommended adversely on legislation (H.R. 3335, 84th Congress)[5] to create an Interoceanic Canals Commission for the purpose of making a comprehensive investigation and study of all problems involved in interoceanic canals. The recommendation was based on the fact that the results of a lengthy study of this subject were available in the 1947 report. Further study of the question on the scale contemplated in the legislation did not appear to be necessary.

You will recall that the subject of a sea level canal was brought up by the President in April of last year. Shortly thereafter, you requested that the cost estimates and traffic forecasts presented in the 1947 report be brought up-to-date and that we obtain the current views of the other interested agencies. This information has recently become available and is highlighted below:

Panama Canal Company

Present estimate of cost is $3.6 billion as compared with $2.5 billion in the 1947 report. Level of traffic in year 2000 presently estimated at 65 million net tons as compared with 86.3 million net tons in 1947 report. Present lock canal, with improvements now underway, will be adequate until last decade of this century except for "Queen" vessels, one ore carrier, and Forrestal and modified Essex class aircraft carriers.

Department of Defense (Joint Chiefs of Staff)

Panama Canal is strategically important. Its uninterrupted use is necessary to conduct of a war for movement of troops and strategic commodities. However, conversion to sea level canal should be considered of lower priority than military projects and activities required for security of nation. Entire question should be considered by Presidential Commission.

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[3] Reference is to a report by the Joint Chiefs of Staff, JCS 1778, "Security Aspects of Possible Canal Routes in Central America," dated May 16, 1947. (JCS Records, CCS 821.1 (5–12–47))

[4] J.C. Mehaffey.

[5] For additional information on this proposed bill, see *Congressional Record*, 84th Cong., 1st Sess., p. 3607.

Atomic Energy Commission

A sea level canal with adjacent terrain appropriately graded would be less vulnerable to the effects of nuclear weapons than the present lock canal.

Department of Commerce

If sea level canal involved an increase in present toll structure, there might be serious economic dislocations and it would be exceedingly harmful to the intercoastal segment of the American Merchant Marine Industry.

Department of State

Negotiations with Republic of Panama would be required if changes in boundary between that country and the Canal Zone are involved, but relations with other countries would not be significantly affected by the sea level canal project.

On the basis of information presently available and particularly in the light of the expressed views of the Joint Chiefs of Staff on relative priorities, we do not believe that the Administration has an active interest in a plan for a sea level canal at Panama at this time. Furthermore, since any decision to build a sea level canal would necessarily stem almost entirely from defense considerations, we believe that creation of a Presidential Commission, as suggested by the Joint Chiefs of Staff, would serve no useful purpose in arriving at the decision. If, however, a Presidential Commission is considered desirable for other reasons, the scope of the duties of the Commission should be limited to consideration of conversion of the present canal to a sea level waterway, taking full advantage of data contained in the 1947 report.

130. Memorandum of a Conversation, Department of State, Washington, April 12, 1956[1]

SUBJECT

Call of Governor Seybold

PARTICIPANTS

Governor Seybold of the Canal Zone
Mr. Holland, Asst. Secretary of State for Inter-American Affairs
MID—Mr. Sowash

General Seybold, Governor of the Panama Canal, called upon Mr. Holland by appointment today. Since the Governor's term expires next month, this was probably the Governor's last official call at the Department.

After a few pleasantries, the Governor stated that, as his swan-song, he would like to urge the importance of making every effort to ensure submission of the draft legislation for the implementation of the 1955 agreements with Panama to the Congress in time for action during the current session. Mr. Holland declared that he fully agreed and said that he had talked to Assistant Secretary of the Army, Mr. Roderick, about it this morning and that Mr. Roderick had informed him that he hoped to obtain a final decision today on the position of the Armed Forces with respect to the manner of implementation of the labor provisions of the agreements. The Governor said that Mr. Roderick was surrounded by a variety of pressures in this matter and that the differences within the Pentagon on the subject could most effectively be resolved by pressure for a decision from without. He thought that Mr. Holland was in the best position to do this. Mr. Holland said, unless he heard from Mr. Roderick in the meantime, he would call Secretary Brucker[2] in an attempt to expedite action.

The Governor, in an oblique reference to State's recommendation of a wage increase for locally recruited workers adversely affected by the Treaty and to other related problems, urged that no changes be made in or amendments be added to the implementing legislation drafted by his office. He stated that the present language of the bill is sufficiently broad to permit the grant of a raise and other steps deemed desirable and that these matters should not be written into the legislation itself. He considers the timing of a wage increase most important and feels that it should not be granted until after the new system has been in effect for a time. It is important, in his view, that the timing be such as to make it clear that it is done as an act of grace on our part and not seemingly as an obligation or a correction of an injustice in the Treaty, otherwise Panama, and not the United States Government, will receive credit for obtaining the raise. Mr. Holland indicated his view that this was good advice.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Panama. Confidential. Drafted by Sowash.

[2] Wilber M. Brucker, General Counsel, Office of the Secretary of Defense.

Governor Seybold then congratulated Mr. Holland on his able handling of our relations with Panama. He expressed the opinion that these relations were now on a far more realistic basis than before, to the mutual advantage of the two countries. Mr. Holland said that he believed the Governor had made an important contribution in accomplishing this. Mr. Holland declared that he believes that this more realistic basis of our relations is now accepted by and is understood by the Panamanians.

After a brief discussion of the local political situation in Panama, the Governor took his leave.

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131. Letter From the Ambassador in Panama (Harrington) to William B. Sowash of the Office of Middle American Affairs[1]

Panama City, May 21, 1956.

Dear Bill: Another indication of the Panamanian attitude toward the Canal Zone is the way in which Governor Seybold was allowed to depart without a single word of thanks for his unfailing helpfulness to Panamanians.[2] When the Caribbean baseball series was played here who but Governor Seybold supplied the extra bleacher seats, at the personal request of President Arias, and did the hauling and installing as well. Seybold was constantly called upon for favors of that sort and complied willingly. Yet when he took his leave of President Arias and the Foreign Minister (I was present on both occasions) neither had an appreciative word to say, merely "bon voyage". On the other hand they pinned a medal on Admiral Miles[3] whose contributions to Panama were boat rides to Porto Bello once a year and picnics to Toboquilla.

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[1] Source: Department of State, ARA Files: Lot 60 D 667, Panama 1956—Relations. Confidential; Official-Informal.

[2] Brigadier General William E. Potter had recently replaced Seybold as Governor of the Panama Canal Zone.

[3] Rear Admiral Milton E. Miles, Commandant, 15th Naval District, Panama Canal Zone.

Whether the Panamanians liked Seybold personally is unimportant but as Governor of the Canal Zone he was entitled to a few friendly words of appreciation. He did not get them. He, of course, personified the forces that are frustrating Panama's aspirations and I am convinced that the Panamanian attitude toward him was planned at a high level to be consistent with the Panamanian attitude generally toward the Canal Zone and treaties in force. The only Panamanian officials at the station to see him off were Bobby Heurtematte and Levy Salcedo.

The time is ripe to take our gloves off and indulge in some verbal fisticuffs. What the Panamanians need is a good scare such as the threat of a completely independent operation in the Zone with a fence around it and non-Panamanian people working inside it. To change their present attitude may call for some drastic surgery. Without it I see nothing but friction ahead.

I question whether the type of action in connection with the radar sites, which Bob Memminger mentioned to me yesterday, will get at the root of the problem. Moreover, it plays into the hands of the Panamanians to the extent that the U.S. Government drags its feet in the pending treaty legislation. I am still groping around for ideas but as a first step I think we should publicize the Panamanian turndown, stressing the defense aspects of the request, and possibly inspire a few Congressmen to ask questions about it. However, this line of action does not get to the heart of the problem which is the problem of attitude.

You have been dealing with Panamanian problems longer than I have and may see nothing new in the present situation but to me, at this time when the atmosphere should be one of cordiality and friendly cooperation following the treaty of last year, it is just the reverse. This situation merits serious thought and I will welcome your views. I find it difficult to keep a proper perspective as well as my temper.

Sincerely yours,

Julian F. Harrington

132. Memorandum for the Files, by William B. Sowash of the Office of Middle American Affairs[1]

Washington, May 22, 1956.

SUBJECT

Panama's Rejection of United States Request for Radar Stations[2]

In three separate conversations over the weekend Ambassador Vallarino was informed by Mr. Holland and Mr. Sowash of this Government's reaction of shock and disappointment to the action of the Panamanian Government last week in rejecting the request of the United States for radar stations in Panama under Article II of the 1936 Treaty. He was informed that this Government could not accept the validity of the arguments advanced by the Panamanian Government in rejecting our request and that the position of this Government remains as stated in the original request. The Ambassador was further informed that the Executive Branch of this Government has worked very hard to achieve the submission of the legislation implementing the 1955 Agreements in time for action by the Congress at this session and that, while we will continue to do what we can to obtain favorable action on this legislation, Panama's rejection of our request for radar sites has very effectively sabotaged all hope of obtaining the passage of this legislation, since no member of Congress would approve it in the face of Panama's open flouting of its treaty obligations. It was added that an announcement regarding the radar stations is being planned and that Panama's failure to cooperate was certain to become public knowledge. The Ambassador stated that he recognized the importance of the situation and would communicate with his Government regarding it.

On Monday, May 21, at the request of Mr. Holland, Mr. Neal asked Assistant Secretary Hill to inform the Congressional committees with jurisdiction over the implementing legislation of the situation with respect to the radar stations.

The line taken with Panama with respect to this matter, as above stated, was cleared with the Secretary by Mr. Holland.

WBS

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[1] Source: Department of State, Central Files, 611.1913/5–2256. Confidential.

[2] On May 16, Foreign Minister Boyd delivered an aide-mémoire to Ambassador Harrington which rejected the U.S. request for radar sites in Panama. The aide-mémoire was transmitted in despatch 401 from Panama City, May 22. (*Ibid.*) On May 18, Harrington telephoned Sowash to inform him of this development. He stated that he, the Governor, and General Harrington were deeply disturbed and believed that the United States should "throw the book at them." (Memorandum from Sowash to Holland, May 18; *ibid.*, 611.1913/5–1856)

133. Telegram From the Ambassador in Panama (Harrington) to the Department of State[1]

Panama City, May 22, 1956—3 p.m.

384. I handed Foreign Minister today letter expressing amazement and disappointment Panamanian rejection our radar sites request and urging further reflection in effort to avoid consequences we both would deplore particularly at this time. Letter of which copies being airmailed[2] pointed out development of high speed aircraft and atomic weapons is precisely type of unforeseeable contingency envisaged by Article II 1936 treaty and to regard request as "military convenience" is to disregard judgement of experienced technicians in field of electronics and guided missiles. Letter added that oral offer negotiate new treaty was unnecessary in view of specific terms of 1936 treaty.

Orally I told Foreign Minister his decision looked like deliberate attempt to avoid cooperation with US on defense matter of vital importance to both countries and that it raised important points in our relations with Panama. I expressed surprise that it took 6 months for Panamanians to decide 1936 treaty afforded no basis for such request and reminded him that when he personally asked me to postpone pressing for decision until local elections had passed he asked me to believe request could be more sympathetically considered if it were kept out political campaign. I told Foreign Minister Secretary Dulles was personally interested and disturbed but assured him in conclusion he could count on our full cooperation and assistance at Presidential gathering here next month irrespective of present issue.

Boyd was grateful for opportunity to give problem further thought and said he would send my letter to Foreign Relations Council which made decision contained in his aide-mémoire and would urge early action. I left in friendlier atmosphere than I had anticipated.

Harrington

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[1] Source: Department of State, Central Files, 611.1913/5–2256. Confidential.

[2] Transmitted in despatch 401 from Panama City, May 22. (*Ibid.*)

134. Memorandum of a Telephone Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and the Panamanian Ambassador (Vallarino), Washington, May 26, 1956.[1]

SUBJECT

Various Matters Discussed with the Ambassador of Panama

On Saturday, May 26, the Ambassador called me to express his satisfaction at the news that the Department of Defense was going to eliminate advertising from TV films shown in the Zone. I told him that the news had caused us much satisfaction.

He then complained somewhat emotionally about an order for Coca Cola that was being placed by the Zone authorities. He complained that this would cause an adverse reaction which would detract from the success of the Panama gathering of Presidents.[2] I said that I would ask that the facts on the case be forwarded to me.

I said that, while on the subject of things which could prejudice the Panama meeting, did he have any news on the matter of radar sites. I said that the refusal by Panama of the sites had astounded me. If the decision is to be controlled by the terms of the treaty, then, clearly, the sites should be granted. However, in my judgment, a much more impelling reason for granting the sites is the added protection that they would give for Panama itself as well as the Zone. I said that the decision placed the Department in an impossible position as regards passage of legislation to implement the treaty. We have been pressing for passage of the legislation. If we reveal Panama's decision on the radar sites the legislation will not have the slightest chance of passage. If we continue for passage of the legislation, but without revealing the Panamanian decision on radar sites, the Department will be bitterly and justly criticized when the fact finally becomes known. I pointed out the great difficulty that any representative of the Department of State would encounter in testifying before Congressional committees on this legislation, since we could not well testify without disclosing the existence of the radar problem.

The Ambassador said that he was doing everything that he could to bring about a reconsideration and a decision granting the sites.

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[1] Source: Department of State, Central Files, 919.50/5–2656. Confidential. Drafted by Holland.

[2] See vol. VI, Documents 109 ff.

On the subject of legislation he said that Senator Green[3] had offered a draft in substitute for that proposed by the Administration. Panama prefers Senator Green's draft and hopes that it will pass. I told him that I was unfamiliar with the Green draft.

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[3] Theodore F. Green (D–RI). The administration's bill was one of a series introduced by the Eisenhower administration during the 2d Session of the 84th Congress in order to implement the 1955 Treaty with Panama. The proposed enabling legislation concerned the establishment of a uniform wage scale in the Canal Zone (S. 1850 and H.R. 6708), the transfer of certain lands from the United States to Panama (S. 1730 and H.R. 6709), and the construction of a bridge or tunnel at Balboa (H.R. 9801).

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135. Letter From the Ambassador in Panama (Harrington) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Panama, June 8, 1956.

DEAR HENRY: I strongly suspect that our Panamanian friends are preparing a bill of complaints against the United States for discussion at the forthcoming gathering in Panama either with you or, if possible, with the President. Their unhappiness over the present status of our relations is no greater than mine but until there is a change of attitude on their part I see no prospect of improvement.

As you well know we are confronted with constant efforts to break down our jurisdictional position in the Canal Zone with the eventual objective of Panamanian participation in the management of the Canal and ultimate ownership. One cannot help but have understanding of Panama's aspirations and sensitivities over a foreign-dominated corridor bisecting their country. Nevertheless, their concerted attempts at encroachment can lead only to deteriorating relations and even bitterness. Succeeding treaties have given Panama greater benefits and under normal circumstances it would be reasonable to assume that each treaty would ensure at least a limited period of happy relations. The honeymoon following the 1955 treaty, as we well know, was painfully short notwithstanding its generous provisions.

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[1] Source: Department of State, Central Files, 611.19/6–856. Secret; Official–Informal.

Some positive action on our part is needed to reverse the current trend of relations. The meeting here later this month perhaps offers a convenient starting point. Apart from the fundamental premise that we are in the Zone to stay and that the Panamanians would do well to accept that fact, it might be helpful to impress on them that with a different attitude on their part they could without a doubt reap more advantages. I am quite sure that many local arrangements could be made in an atmosphere of good will and cooperation, if we were not constantly reminded of the evident aspirations of the Panamanian Government and the sharp disagreement with respect to our jurisdictional rights. For example, with a different attitude on their part perhaps we could risk reaching an informal understanding whereby their nautical inspectors could board transiting vessels as observers. It is obvious that there would be a greater disposition to cooperate with them if their own attitude were more reasonable and free from the constant threat of their long term objectives. Perhaps it would be well to hint that we can always operate the Canal entirely independently from Panamanian manpower and other resources and that to operate it independently would have many advantages to us. We would all deplore the necessity for indulging in any such extreme action but it is a possibility that could have disastrous effects on Panama's economy and as such should not be overlooked by the Panamanians.

Cooperation runs in two directions and the Panamanians should not rely too heavily on our traditional generosity and tendency to be soft.

Sincerely yours,

Julian

136. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, June 14, 1956.

SUBJECT

Authorization to Negotiate for Lease of Radar Sites in Panama

Discussion:

In November 1955 the Republic of Panama was requested by this Government to make available under Article II of the 1936 Treaty, a copy of which is attached[2] two hilltop sites within the Republic for radar installations connected with the defense of the Panama Canal. The two sites within Panama are desired because they would afford more effective coverage than sites available in the Zone. In May 1955 Panama rejected the United States' request as improper under Article II of the 1936 Treaty, but in doing so intimated that she would be willing to enter into negotiations for a new treaty regarding the use of these sites.

The Department believes the request to have been properly made under Article II and declines to enter into a further formal treaty with Panama on this subject or to offer new concessions to Panama as an inducement to her to fulfill her treaty commitment under Article II. Under Article II of the 1936 Treaty, however, a further agreement with respect to any additional lands made available is envisaged. Accordingly, the Department is prepared to offer to negotiate an agreement limited to a lease governing the use of these sites, as was done in 1942 and 1947 for the acquisition of defense sites in Panama. The Department of the Army is requesting the Department of State to negotiate such a lease under the legislative authorization contained in Public Law 161, 84th Congress, 1st Session which provides: "The Secretary of the Army is authorized to establish or develop classified military installations and facilities by the acquisition of land and the construction, rehabilitation, or installation of permanent or temporary public works, including site preparation, appurtenances, and related utilities and equipment, in a total amount of $223,993,000."[3]

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[1] Source: Department of State, Central Files, 719.561/6–1456. Confidential. Drafted by Sowash and concurred by Herman Phleger, the Legal Adviser. Dulles initialed his approval of this memorandum on the source text.

[2] Not printed.

[3] For the full text of P.L. 161, approved July 15, 1955, see 69 Stat. 324.

Recommendation:

That you authorize the negotiation of an executive agreement with Panama regarding sites for radar installations.[4]

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[4] In telegram 361 to Panama City, June 14, the Department stated its belief that the United States could base its request to Panama for radar sites on Article II of the 1936 Treaty and that no further treaty rights would be necessary. The telegram reads in part:

"Department therefore declines enter into further formal treaty on this subject or to offer concessions to Panama as inducement fulfillment her treaty commitments. It does agree however as in 1942 and 1947, to negotiate agreement in form of lease governing use sites which could be subject approval or ratification by Panamanian Assembly. No extraneous subjects will be considered in these negotiations. Panama will be expected demonstrate good faith in matter by granting permission without delay for survey of sites.

Inform Foreign Minister above sense. Department contemplates negotiation such agreement conducted by Embassy on basis CinCarib's drafts cleared by Department." (Department of State, Central Files, 611.1913/6–156)

On June 19, Ambassador Harrington delivered a letter to Foreign Minister Boyd incorporating the points set forth in telegram 361.

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137. Memorandum of a Conversation, Department of State, Washington, June 20, 1956[1]

SUBJECT

Radar Sites in Panama

PARTICIPANTS

Mr. Roderick, Assistant Secretary of the Army
Mr. Bacon, Deputy Assistant Secretary of the Army
Mr. Holland, Assistant Secretary of State for Inter-American Affairs
General Harrison, CinCarib
Mr. Sowash, MID

Messrs. Roderick and Bacon brought General Harrison to Mr. Holland's office today for a brief discussion of the radar sites problem, in which General Harrison stressed the importance to the military of acquiring the use of radar sites in Panama for the defense of the Canal. General Harrison stated that he had decided to delay his original timetable for the construction of these radar bases in the hope that the sites in Panama will be made available and thus avoid the necessity of using inferior sites within the Zone. He expressed the view that Panama is using our interest in these sites to attempt to acquire new concessions and more dollars from the United States, and he expressed the conviction that Panama's constant goal is to encroach upon our exclusive jurisdiction in the Zone. Discussion of these subjects disclosed that the thinking of the two Departments is closely parallel.

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[1] Source: Department of State, Central Files, 611.1913/6–2056. Confidential. Drafted by Sowash.

It was agreed that it would be only prudent to retain as leverage, by postponing until the next session of the Congress, the legislation authorizing the return of lands agreed to in the 1955 Agreements with Panama. At the same time it was agreed that efforts should be redoubled to obtain passage of the labor bill and the bridge bill during the current session.

Mr. Roderick and General Harrison also spoke highly of Ambassador Harrington's work and of the close cooperation among the top United States officials on the Isthmus.

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138. Editorial Note

In telegram 12 from Panama City, July 6, Ambassador Harrington reported that he had received a letter from Foreign Minister Boyd on July 5 in reply to his letter of June 19. In the letter, Boyd stated that he could find nothing in the record of negotiation relating to the 1936 Treaty to support the United States view that Article II was intended to provide for the use of additional land for defense on the basis of new technical developments in warfare. Accordingly, he explained that Panama believed that if a new agreement was to be negotiated it must be independent of the 1936 Treaty. (Department of State, Central Files, 611.1913/7–656) The text of Boyd's letter was transmitted to the Department in despatch 13 from Panama City, July 9. (*Ibid.*, 611.1913/7–956) In telegram 15 from Panama City, July 9, Harrington pointed out that he and Lieutenant General Harrison agreed that the United States should make a public announcement that Panama had turned down its request for radar sites based on the 1936 Treaty and that it would therefore be necessary to plan for the use of inferior sites within the Canal Zone. "I believe," he stated further, "implementation 1955 treaty should be held up." (*Ibid.*, 611.1913/7–956)

In airgram 5 to Panama City, July 13, the Department instructed the Embassy to deliver a note to the Panamanian Foreign Office at its earliest possible convenience which would reiterate the United States position regarding the proposed radar sites. "Despite the Foreign Minister's allegations to the contrary," the telegram read "there can be no doubt that the record of the negotiations of the 1936 Treaty fully supports the United States viewpoint with respect to Article II. . . . The Department, with Department of the Army concurrence, does not consider it desirable to publicize at this time our differences with Panama arising from the request for sites through a press release or a statement by a member of Congress. This position is taken with a view to the forthcoming Meeting of Presidents in Panama and to allow Panama the fullest opportunity to retract from an untenable position without loss of face. If our compromise offer is rejected, appropriate measures of this or other kind can then be considered." (*Ibid.*) On July 16, Harrington handed a note to Boyd which incorporated the views contained in airgram 5 to Panama City. The text of this note was transmitted to the Department in despatch 23 from Panama City. (*Ibid.,* 611.1913/7–2756)

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139. Memorandum of a Conversation, Ambassador's Residence, Panama City, July 23, 1956[1]

PRESENT

The President	President Arias
The Secretary of State	President-elect de la Guardia
Asst. Secy Holland	
Ambassador Harrington	
Mr. Jack D. Neal (MID)	

President Eisenhower expressed his appreciation of the excellent manner in which Panama had conducted the meeting of Presidents.

President Arias thanked the President for the personal sacrifice which he had made in coming and said that he was sorry Mrs. Eisenhower was not able to attend.

The President stated Mrs. Eisenhower did not like to fly long distances for short stays. He said he himself was afraid for awhile that he would be unable to make the trip but that his doctors had assured him he would regain his strength quickly and could attend. He stated that despite the lengthy signing session of Sunday when two speakers prolonged their remarks he had felt fine.

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[1] Source: Eisenhower Library, Whitman File, International File. Official Use Only. Drafted by Neal on August 17. President Eisenhower was in Panama to attend the meeting of the Presidents of the American Republics.

President Arias stated he wished to take this occasion to call the attention to some of Panama's problems. He stated our two countries had their differences which he always tried to work out. He said he and Ambassador Harrington discussed problems in a frank and friendly manner; that he usually had good relations with the Embassy and the State Department, but that dealing with the Canal authorities was more of a problem.

President Arias said his country was very small and its problems as seen by the United States might seem small, but that they were important to Panama. He compared the relative positions of the two countries by pointing out that this morning he had been told by Dr. Milton Eisenhower that the budget for Penn State College is $30 million per year; whereas, the yearly budget for the Republic of Panama is only $50 million.

President Arias stated that despite our recent treaties, things were not going well and that we are "running in to trouble". He said he had been unhappy from the start about the "equal pay" wage scale. He said he could foresee many difficulties in implementing this phase of the treaty and he believed in taking preventative action now rather than curatives later.

President Eisenhower said if there are any injustices being done he wants to know about them. He strongly emphasized his stand on this point saying he would not tolerate such practices. He said he knew the relationship between the Canal Zone and the Republic of Panama is a very complicated and technical one; that the Canal was operated by a separate corporation reporting to the Secretary of Defense, but that problems arising receive the attention of Secretary Dulles through Ambassador Harrington. He stated it is only natural that difficult problems will arise and that the United States will not always be able to agree with Panama on specific points because of requirements by the Defense Department, the Government of the Canal and because of our Congress. President Eisenhower stated that he had just returned from a drive through the Zone with Governor Potter. He said the Canal officials are very anxious to do away with the Panama Railroad because it is losing $500,000.00 per year, but Congress will not authorize this measure. He said he was one of the early advocates of a highway across the Isthmus but that the Canal Company fought the proposal because of the monopoly it had on freight and traffic. He said now they want to do away with the railroad!

President Arias said another problem which is causing more and more trouble is the Liquor Matter. He explained to President Eisenhower that as a result of the agreement the Zone residents are exempt from most of the Panama tax. Smuggling liquor from the Zone to the Republic is growing. He said it is no problem for him to get a case of whiskey from friends in the Zone.

The President said he was not familiar with the details of this matter but he realizes such things usually go on. He said when he was stationed here there was heavy traffic in cigarettes; they were practically legal tender.

The President said he thought maybe there should be a better channel for handling these problems which arise between Panama and the Zone. He said possibly we should have one person who could get these problems into the proper channels quicker.

President Arias said it disturbed him because these important matters were discussed on a high level here in Panama and were then transmitted to a low level in Washington for decision.

Assistant Secretary Holland stated this was not the case; that Ambassador Harrington transmits information to Washington by cable where it reaches the Secretary's attention, his own attention and that of several specialists. The officer handling Panama affairs is in daily contact with him, that he (Holland) has also daily conferences with Secretary Dulles and that he (Holland) also has a regular one-hour weekly meeting with the Panama desk officer.

Mr. Holland stated he felt Washington coordination—White House, Department of Defense and State—was good and is improving as a result of recent procedures which the President had ordered.

The President said he had spoken to Secretary of Defense Wilson regarding Panama when President Remon visited Washington and had told him he did not want any injustice done in our handling of Panama affairs.

President Arias brought up the matter of Panamanian citizens residing in the Zone being exempt from Panama taxes. The President said this sounded most unjust and that these matters must be corrected. He said possibly the State Department had not always kept him as closely informed on the problem with Panama.

President Eisenhower asked if President Arias knew the new Governor of the Canal—General William E. Potter. President Arias said he did. President Eisenhower spoke very highly of Governor Potter saying he had known him many years and he was certain Panama would find him able and helpful.

President Eisenhower strongly expressed his insistence on "justice" in all our dealings. He said we are going to have problems between our two countries but that we must "go to the past and look to the future" when we are trying to solve them. President Eisenhower stated one of his strongest convictions is his belief in the sanctity of treaties. The President said that in his dealings he "won't be guilty of injustices". He asked President Arias to communicate with Ambassador Harrington at anytime who will get the information to the White House.

President elect de la Guardia raised the question of the 10% tax on transportation. The President stated he was not familiar with the details. Assistant Secretary Holland said the news on this point was good since only last week a bill to abolish the tax had been reported out of committees in both houses.

In connection with the statement that Panamanians were often disappointed that it took so long to obtain action from Washington the President-elect said that the Chase Bank here had a good deal of autonomy and could act on its own. On the contrary, he said, the National City Bank had to refer most matters to its head office in New York and, in consequence, Panama's relations with the Chase Bank were better than they were with the National City Bank.

Secretary Dulles said he kept up with Panamanian matters but necessarily not as to detail. He pointed out he was constantly being confronted with international problems of grave import.

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140. Memorandum From the President to the Secretary of Defense (Wilson)[1]

Washington, July 25, 1956.

While I was in Panama, the President of that country told me that in certain instances the arrangements between the Canal authorities and his country were not, in his opinion, working fairly, or were tending in such a way that he foresaw future trouble.

I recall instances that he mentioned specifically. The first had to do with the tax on liquor. It being manifestly impossible to establish custom guards or any kind of surveillance on the numerous roads leading from the Zone into Panamanian territory, it is clear that if an article can be purchased much more cheaply in the Zone than in Panama, smuggling will occur. He said that this was the case in the matter of liquor. As I understand it, Zone personnel, whether in the civil or military service, are able to purchase liquor at such a low rate of taxation that the total price in the Zone is little more than one-third what it is in Panama. He pointed out that the liquor tax was an item on which they had to depend for considerable revenue and that the existing situation was working great hardship on them.

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[1] Source: Eisenhower Library, Whitman File, DDE Diaries.

Another point of complaint was what he termed the "slowness" in securing action on any Panamanian complaint or protest. He said that while the Ambassador was always readily available for hearing a complaint and forwarding it promptly to Washington, when a matter got into the hands of the Defense Department and the Canal authorities, seemingly endless delays ensued. With respect to this one, I told him that I would ask you to keep as close touch with such matters as possible so that you could personally determine that no unwarranted delays occurred.

He then referred to a difficulty that he foresaw as arising out of the recently concluded treaty. One article of that treaty provides for equal pay for equal work. But the President said that a system of work classification was being developed which the Panamanians were fearful was designed to place all the Panamanians in the lowest of pay categories. He asked assurance that entry into any grade would be strictly on merit, conducted by fair examination. To this I replied that the United States was in the habit of maintaining the spirit as well as the letter of its treaties.

I bring these matters to your attention because, first of all, I know that you would want to know of them. My more important reason is, however, that we must be exceedingly careful that the future years do not bring about for us, in Panama, the situation that Britain has to face in the Suez.

Local politics can feed on resentments brought about by real or imagined injustices to the native population. I think it behooves us to be *scrupulously fair and considerate of Panamanian problems, and more than ready to meet them halfway,* in any matter that seems to require adjustment between us, but *without* incurring the risk of divided control or beclouding our clear title to ownership.

D.D.E.[2]

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[2] Printed from a copy which bears these typed initials.

141. Memorandum From the Acting Secretary of the Army (Finucane) to the Secretary of Defense (Wilson)[1]

Washington, July 31, 1956.

SUBJECT

Arrangements Between the Panama Canal Authorities and Panama

1. In accordance with our discussion on 26 July 1956, I have reviewed the situation and actions concerning the points mentioned in the President's memorandum to you dated 25 July 1956.[2] I am convinced that the United States, as represented by officials of the Departments of State, Defense and Army, has been scrupulously fair and considerate of Panamanian problems while at the same time assuring that proper United States treaty rights in the Canal Zone are not prejudiced.

2. The United States has had the right since 1903 to import all items into the Canal Zone free of any Panamanian duty. However, President Roosevelt's Executive Order of 1935 in effect grants a monopoly to Panama on sales of liquor for consumption in the Canal Zone and subjects all liquor consumed in the Canal Zone to Panamanian taxation. This taxation finally became excessive. Therefore, in the 1955 Treaty, Panama agreed to effect a 75 percent reduction in this taxation as long as the United States continues to require that purchases be made from Panamanian merchants. The availability of alcoholic beverages at a reduced price when sold for importation into the Canal Zone does raise a smuggling problem. However, administrative control procedures are in effect which limit liquor purchases to a reasonable amount.

3. With regard to fair treatment for Panamanian employees, implementing legislation for a single wage plan for Canal Zone agencies has been submitted to Congress but not yet enacted. Before the legislation was requested, the plan was reviewed to insure that it would comply with the letter and spirit of the Treaty by the State Department; the military departments; the Canal Zone Government; the Presidential Advisor on Personnel Management, Mr. Philip Young; the Special Counsel to the President, Mr. Gerald D. Morgan; the Administrative Assistant to the President, Mr. Bryce N. Harlow; and officials of the Bureau of the Budget. This single wage plan, when implemented, will insure equality of treatment as positions will be classified without regard to nationality of the incumbent or

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[1] Source: Eisenhower Library, Whitman File, Administration Series. Secret. This document was included in a folder entitled "Wilson, Charles E. 1956."

[2] *Supra.*

proposed incumbent. Rates of pay for positions which can be filled by local recruitment will be based on local wage rates, and rates of pay for positions for which recruitment is required in the United States will be based on rates of pay in the United States. In actuality, the present and proposed wages are substantially greater than those in effect for similar jobs in the Republic of Panama. The Treaty itself provides for overseas differentials and an allowance for those elements, such as taxes, which operate to reduce the disposable income of a United States citizen employee as compared to a non-United States citizen employee. Security positions are excluded from the equality provisions of the Treaty.

4. Evidence of fair relations beyond the letter of treaty commitments includes: a recently instituted wage increase at a cost of about $1,200,000 a year; accommodation since 1950 of members of the Panamanian Guardia Nacional (a total of 199 students through 1955) in the Military Police and Signal Courses of the U.S. Army Caribbean School; continuous change by the Panama Canal Company of job classes requiring higher skills in order to increase those for which Panamanians may be employed; and, plans of the Panama Canal Company to train additional Panamanians for those jobs requiring higher skills.

5. With regard to Panamanian allegations of "seemingly endless delays," I consider that there are no unjustifiable delays by the Department of Defense in the United States–Panama negotiations. Rather, this allegation would be more aptly applied to Panamanian government actions. For example: the United States requested, in November 1955, that the Republic of Panama make available two parcels of jungle, hill-top land (approximately 12 acres) for the erection of essential radar stations for the Nike Battalion to be deployed to the Canal Zone. Despite United States insistence that the language and intent of the 1936 treaty clearly establish the basis for such cooperation, the Republic of Panama has not yet granted the use of these areas to the United States.

6. I am attaching additional background information provided by Mr. Roderick which elaborates the views expressed herein concerning the points mentioned in the President's memorandum.[3] I believe this information will be of value to you.

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[3] In the memorandum, entitled "Additional Information on Arrangements Between the Panama Canal Authorities and Panama," Roderick concluded as follows:

"In summary, I consider that the United States has been scrupulously fair and considerate of Panamanian problems and more than ready to meet them halfway; Panamanian allegations of 'seemingly endless delays' in resolving matters of mutual concern are unfounded; and that the US sovereign rights in the Canal Zone, obtained in the Treaty of 1903, are being adequately protected."

7. In accordance with your suggestion, Mr. Roderick plans to leave for the Canal Zone on 2 August, as a follow-up on the President's trip.

8. This memorandum is classified Secret because of the reference to radar sites in paragraph 5 above. Other information included can be treated as "Official Use Only."[4]

Charles Finucane

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[4] Secretary of Defense Charles E. Wilson forwarded this memorandum to President Eisenhower under cover of a letter dated August 1. (Eisenhower Library, Whitman File, Dulles–Herter Series)

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142. Memorandum From the Acting Officer in Charge of Central American and Panama Affairs (Sowash) to the Deputy Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, July 31, 1956.

SUBJECT

Effect of the Suez Situation on Our Position in Panama

There can be no doubt that Egypt's seizure of the Suez Canal[2] could have important repercussions upon our own position on the Isthmus of Panama. The Panamanians, unable or unwilling to see beyond the superficial analogies between the two situations, have made no secret of the fact that they follow with keen interest the developments at Suez. The Government of Panama unquestionably looks to the day when it will be able in one way or another to emulate the recent action of Egypt. There is quiet talk from time to time in even responsible circles in Panama of eventual nationalization or internationalization of the Panama Canal. Within the last few months an ex-Foreign Minister, who has always shown himself to be friendly toward the United States, remarked to our Ambassador that "Now Egypt has her canal and we shall someday have ours."

Unable to challenge our position in the Canal Zone by threat of force, the Panamanians instead have concentrated their efforts upon a gradual and insidious undermining of and encroachment upon our treaty rights in the Zone. This drive has been accelerating in the past two decades. Under the leadership of Dr. Ricardo Alfaro[3] the Panamanians have evolved a forced and distorted interpretation of the existing treaties between the United States and Panama which runs counter to the position of this Government with respect to its treaty rights. Panama's thesis would restrict the exclusive jurisdiction claimed and exercised by the United States in the Canal Zone under Article III of the 1903 Treaty to the five fields of the construction, operation, maintenance, sanitation, and protection of the Canal, leaving to Panama the right to the present exercise of sovereign rights in all other fields of activity in the Zone. The United States position is that, in accordance with Article III of the 1903 Treaty, she has all the rights which she would possess and exercise in the Zone if she were sovereign to the entire exclusion of the exercise of such rights by Panama, except insofar as such rights have been ceded back to Panama by the United States. This basic difference in interpretation of the 1903 Treaty by the two Governments underlies many of the problems that arise in their relations. The Panamanian thesis of course has strong emotional and nationalistic appeal in Panama and no government there probably would ever now dare abandon it, even if it wanted to. The United States on its part is equally wedded to its interpretation which it honestly believes to be the only one of which the clear language of the treaties is susceptible.

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[1] Source: Department of State, Central Files, 919.7301/7–3156. Confidential. Transmitted through Acting Deputy Director of MID Hoyt.

[2] On July 26 Egyptian President Gamal Abdel Nasser announced that he had signed into law a Presidential decree nationalizing the Suez Canal Company.

Pursuant to its thesis, the Government of Panama repeatedly endeavors to assert and exercise jurisdiction in the Zone in such diverse fields as labor, documentation of ships, and taxation. This Government, vigilant against such attempts, has consistently refused to countenance the exercise by Panama of jurisdiction in the Zone, except in those instances authorized by specific treaty provision, and all such attempts on the part of Panama have been vigorously protested by formal note. Such notes are usually not answered by the Government of Panama. The issue is constantly in the background in our relationships with Panama.

The Panamanians' present stratagem appears to be to create as many precedents as possible in support of their contention. During the 18 months of negotiations which led to the agreements signed with Panama in January 1955 many of the Panamanian proposals were predicated on the Panamanian thesis and, while dealing with seemingly insignificant matters, had to be rejected forthright by this Government since their accommodation would have encroached upon our treaty rights with consequent impairment of our fundamental position on the Isthmus. At several points of deadlock in the negotiations, the Panamanian negotiators openly threatened to carry the jurisdictional issue to the Permanent Court of International Justice if satisfactory solutions were not achieved on some of their complaints.

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[3] Former President of Panama and member of the Panamanian Foreign Relations Council.

Knowing with what thoroughness and care the Government of Panama will scrutinize every possible precedent in support of their aspirations ultimately to obtain control of the Panama Canal, it behooves this Government, in the decisions which now confront it as a result of the recent developments in the Suez, constantly to bear in mind the possible repercussions which decisions with respect thereto may have upon our own position on the Isthmus of Panama. This applies equally to any press statements by officials of this Government with respect to the Suez crisis. I earnestly recommend that this aspect of the matter be brought to the attention of the Secretary, the Under Secretary, and Assistant Secretary Rountree[4] in order that appropriate steps may be taken to insure that ARA is kept informed regarding Departmental policies and decisions concerning developments in the Suez. This is important in order that this Government avoid being placed in a position of adopting contrary positions with respect to the two areas which might be used as a lever against us at a later date by Panama in contesting our complete unilateral jurisdiction and control of the Panama Canal Zone. Such an arrangement was effected in 1953 during the tripartite talks on the Suez Canal. The attached proposed memorandum is designed for this purpose.[5]

For your further information there is attached a copy of a memorandum prepared in 1952 by Miss Whiteman of L/ARA on the comparative legal position of the Suez Canal and of the Panama Canal.[6]

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[4] William M. Rountree, Assistant Secretary of State for Near Eastern, South Asian, and African Affairs.

[5] This proposed memorandum was addressed from Rubottom to Secretary Dulles and Under Secretary Hoover. It was not attached to the source text. (Department of State, ARA Files: Lot 60 D 667, Panama 1956—Suez) The memorandum briefly discussed the relationship between developments in Panama and the Suez Canal crisis, recommending that ARA be kept informed in advance of Departmental policies, decisions, and statements with respect to Suez in order that precedents not be set or statements made which might be used to the disadvantage of the United States at a later date by Panama. It was apparently not sent forward. A handwritten note on the memorandum by Fisher Howe reads as follows: "Believe this matter was taken care of at a meeting with Mr. Hoover."

[6] Not found attached. (*Ibid.*)

143. Circular Telegram From the Secretary of State to Certain Diplomatic Missions[1]

Washington, August 3, 1956—5:33 p.m.

85. Joint State–USIA. Egyptian seizure Suez Canal and resultant developments causing public comment on US position Panama Canal Zone. Avoidance initiation any discussion linking status Panama Canal with Suez Canal problem will further our foreign policy objectives. Any USIS material relating to US rights in Canal Zone within context of discussion of Suez seizure should be based on statements by President or Department and factual reporting of statements from Panamanian or other sources which look favorably on U.S.-Panamanian relations concerning the Panama Canal. Posts however should seek de-emphasize any linking two canal situations.

Dulles

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[1] Source: Department of State, Central Files, 611.1913/8–356. Confidential. Drafted and approved by Richard I. Phillips, Public Affairs Officer, ARA. This telegram was sent to all diplomatic missions in Latin America, repeated to 33 other posts, pouched to 15 additional posts, and sent for information to Ottawa.

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144. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, August 6, 1956.

SUBJECT

The Panama Canal in the Light of the Suez Crisis

In view of the attempts of Egyptian spokesmen and others to link the settlement of the Suez Canal crisis with a change in the status of the Panama Canal, the following points may be of interest:

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[1] Source: Department of State, Central Files, 611.1913/8–956. Confidential. Drafted by Sowash and Kreig and transmitted to all (20) diplomatic missions in Latin America in circular airgram 1281, August 9. (*Ibid.*)

At a meeting of the Secretary's Staff on August 2 Acting Secretary of State Hoover commented on the Latin American viewpoint on the Suez crisis and the relationship between U.S. actions regarding Suez and the Panama Canal. He asked the Bureau of Inter-American Affairs to prepare a study of the problems which existed or might arise in the Suez crisis which had a parallel in or relationship to the Panama Canal.

1. The treaty status of the Panama Canal greatly differs from that of the Suez Canal.[2] The Suez Canal Company is a private company operating in territory under Egyptian jurisdiction and under a concession that expires by its own terms in 1968. The Panama Canal is operated by an agency of the United States Government in an area granted in perpetuity to the United States in which the United States exercises broad rights of sovereignty to the exclusion of exercise of such rights by Panama. A summary of the basic differences in the status of the two canals is attached (Tab A).

2. The grant of the Canal Zone under the 1903 Convention is made in perpetuity and in the 1955 Treaty Panama specifically agreed that the provisions of the 1903 Convention, as well as those of the 1936 and 1955 Treaties, may not be modified except by mutual consent.

3. By article III of the Hay–Pauncefote Treaty of 1901[3] between the United States and Great Britain it was agreed that "The Canal shall be free and open to the vessels of commerce and of war of all nations observing these Rules, on terms of entire equality, so that there shall be no discrimination against any such nation, or its citizens or subjects, in respect of the conditions or charges of traffic, or otherwise."

4. Panama openly aspires to limit our exclusive jurisdiction in the Zone, with a view to ultimate joint control and administration or possibly internationalization of the Canal. To this end the Panamanians have evolved a distorted interpretation of Article III of the 1903 Treaty which would restrict the exclusive jurisdiction of the U.S. in the Canal Zone to the five fields of construction, operation, maintenance, sanitation and protection, leaving jurisdiction in all other fields to Panama. We do not agree with this interpretation and Panama is unable to challenge with force our position in the Canal Zone.

5. Panama's current endeavor appears to be to establish precedents in support of her views on jurisdiction within the Canal Zone and to this end will scrutinize carefully all statements and positions of this Government with respect to the Suez crisis.

6. It is possible that Panama will someday try to take the United States before the International Court of Justice on their basic differences with respect to United States treaty rights in the Zone.

7. Acquiescence in the Panamanian interpretation of Article III, 1903 Convention, would result in administrative chaos within the

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[2] At a meeting with British officials in London on August 1, including British Foreign Secretary Selwyn Lloyd, Secretary Dulles explained what he believed were the important legal distinctions between the status of the Panama Canal and the Suez Canal.

[3] For text, see 32 Stat. 1903.

Zone and imperil the efficient operation and security of the Canal. Insistence upon the sanctity of the treaties governing the Canal is essential to our national interests. We should set an example for Panama by scrupulous observance of our own treaty rights and obligations, but at the same time we should not attempt to pursue a policy of appeasement or new concessions to Panama.

8. We should seek to avoid any precedent or step which might result in demands for the consideration of the internationalization of the Panama Canal in the UN or OAS forums.

A discussion of the current situation of the Panama Canal in the light of developments concerning Suez is appended as Tab B.[4]

[Tab A]

BASIC DIFFERENCES BETWEEN THE SUEZ AND PANAMA CANALS

Suez Canal	*Panama Canal*
1. Suez Company holds a private concession.	1. Canal Zone rests on public treaty.
2. Canal is operated by Suez Company, a private concern, registered in Egypt.	2. Canal Zone rests on a grant to the United States and is operated by a governmental agency.
3. Suez Canal is an "integral part" of Egypt.	3. Panama Canal is in the Canal Zone over which Panama has granted United States exclusive jurisdiction.
4. The concession of the Suez Canal runs for 99 years, expiring in 1968.	4. The grant to the United States of sovereign rights, power and authority in the Canal Zone is in "perpetuity".
5. For purpose of guaranteeing status of Suez, it was made subject of multilateral treaty.	5. All responsibilities vis-à-vis Panama contained in bilateral treaties.

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[4] This 7-page memorandum, prepared by Sowash, elaborated upon the points contained in the memorandum of August 6 from Rubottom to Dulles. Another memorandum on the same topic, entitled "Panama Canal vs. Suez Canal", dated August 10, was prepared as a position paper for the 22-nation London Suez Canal Conference, held August 16–23. That paper, drafted by Whiteman and cleared with Sowash, is in Department of State, UNP Files: Lot 58 D 244, Suez—1956.

6. Construction, financing and management is international.	6. Construction, financing and management not international—undertaken by United States alone.

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145. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, August 7, 1956.

SUBJECT

Estimate of Canal Problem in Latin America; Your Briefing of Latin American Ambassadors Today

1. Press reaction—generally favorable to Western position.

2. Government reaction—most appear to be watching and waiting; believe they will support us once informed.

3. Attitude of Panama.

(a) Has announced will not be bound by London Conference decisions, thus revealing pique at not being invited; other governments may sympathize with her on this point.

(b) Telegram this morning reports statement attributed to Panamanian government spokesman adverted to their traditional position which would attempt to limit our exclusive jurisdiction in Canal Zone to construction, operation, sanitation and protection.[2]

(c) Above may indicate Panama rather than espouse internationalization may increase pressure on United States for further concessions under the 1903 Treaty, several times amended in Panama's favor, last in 1955. Her efforts would probably be attended by wide publicity.

4. Our official line for the present with Latin American Governments should be to explain fully our unassailable moral position on Suez Canal problem. Your briefing this morning should be followed by telegraphic report to all our Embassies so that Ambassadors can discuss subject fully with Foreign Offices.

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[1] Source: Department of State, ARA Files: Lot 58 D 691, Suez Canal–Panama Canal 1956. Secret. This memorandum was routed through the Executive Secretariat (S/S) and initialed by Howe. A handwritten note on the source text by William B. Macomber, Jr., Special Assistant to the Secretary of State, indicates that Dulles was informed about the contents of this memorandum.

[2] Apparent reference to telegram 118 from Panama City, August 6. (*Ibid.*, Central Files, 396.1–LO/8–656)

5. At the same time we should consider a carefully planned effort through . . . informational media to disassociate the questions of the Suez and Panama Canals.

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146. Editorial Note

On August 8 President Eisenhower held a news conference devoted primarily to a discussion of the Suez Canal crisis. During the course of the conference, he pointed out that the Suez Canal became an international waterway as a result of the treaty of 1888. This was completely unlike the Panama Canal, he continued, which was "strictly a national undertaking carried out under a bilateral treaty." Excerpts from the President's remarks were transmitted to Assistant Secretary Holland, who was in Panama as part of a larger visit to several Latin American nations, in telegram 95 to Panama City, August 8. (396.1–LO/8–856) For the full transcript of Eisenhower's press conference, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1956* (Washington, United States Government Printing Office, 1957), pages 660–671.

At 11:30 a.m. that same day, the President met with Secretary of State Dulles to consider Suez developments. Eisenhower and Dulles briefly discussed the relationship between the Suez Canal and the Panama Canal. According to Dulles' memorandum of that conversation, the following exchange took place:

> "I mentioned to the President that there was some indication that Panama was getting into contact with Egypt. The President indicated considerable annoyance and stated that if we left the Panama Zone we would take the locks with us. He again reverted to a suggestion that he had made once or twice before that we should consider the desirability of building an alternative route in Nicaragua so that we would not be subject to blackmail."

147. Memorandum of a Conversation, Panama City, August 9, 1956[1]

SUBJECT

Suez Canal Problem

PARTICIPANTS

From Panama	*United States*
President Arias	Ambassador Julian Harrington
Acting Foreign Minister Molino	Assistant Secretary Henry Holland
Harmodio Arias[2]	
Dr. Octavio Fabrega	

The first three hours of the meeting were taken up by a long rehearsal by the Panamanians of different complaints regarding U.S. implementation of the treaty between us. That will be reported in a separate memorandum.[3]

At the end of this period I raised the problem of the Suez Canal. The Panamanians showed some surprise and said that they had not intended to raise the problem. I said that I would like to do so because I felt confident that it was one upon which they had been thinking heavily and that I felt it was one of importance between our two countries.

Prior to the conference I had undertaken to outline in my own mind a presentation which might be appealing to all of the different shades of thinking that I felt sure could be found among the President's advisers, and which might persuade each of these groups to follow a line of temperance with respect to the Suez problem.

I told the President and his advisers that I had, in my thinking, attempted to put myself in the place of a Panamanian and determine what would be the best course for my country. This, of course, depended upon what my objective with respect to the Panama Canal might be.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Panama. Top Secret. Drafted by Holland on August 14. Following the meeting of the Presidents of the American Republics at Panama, Holland, accompanied initially by Secretary Dulles, began a trip to the following South American countries: Colombia, Ecuador, Peru, Chile, and Bolivia. In telegram 98 from Panama City, repeated for information to Holland in Santiago, the Embassy noted that President Arias had confirmed his personal interest in having further talks with Holland the following week. "I strongly favor such a meeting," Ambassador Harrington stated, "as means of clarifying atmosphere." (*Ibid.*, 611.19/7–3156) Holland arrived in Panama on August 8 and returned to the United States August 9.

[2] Harmodio Arias Madrid, Chairman of the Panamanian Council of Foreign Relations.

[3] Not found in Department of State files.

I knew that some Panamanians favored eventual nationalization or internationalization of the Canal. If I belonged to this group I would see two possible courses. The first would be to try to intervene in the Suez problem, to identify Panama with Egypt and to draw analogies between the two canals. The second course would be to avoid any participation in the Suez problem and to await a more favorable time to pursue my objective.

Of these two courses, the second seemed to me the better. The first would necessitate the immediate sacrifice of some exceedingly valuable short-term assets of Panama. These are the present good will of the United States people and Government and the intention of the administration to urge favorable action by the next Congress on the legislation appropriating funds to construct the bridge across the Canal, the legislation regarding equal pay rates in the Zone and the legislation transferring to Panama certain lands and other assets covered by the recent treaty amendment. Likewise, the first course would necessitate Panama's identifying herself with the enemy of the United States and of Panama, since it is probable that Soviet Russia will align herself with Egypt.

As a Panamanian, my objective might be the continuation of the present arrangement between the United States and Panama regarding the Canal. If this were my objective, then I would be intent on a course of action having two major features. The first feature would be to neutralize the efforts of three local groups which will surely try to embarrass the Government of Panama with respect to the Suez problem. These groups are the local communists, the local sector which favors nationalization of the Panama Canal and the local opposition to the existing Government. As a defense against the activities of these three groups I would publicly evidence intense interest in the Suez problem; I would publicly express a desire to participate in the London Conference, but I would be exceedingly careful to avoid the slightest possibility of actually being drawn into that Conference. If Panama were to be included in the London Conference it would be inevitable that she would be forced to adopt a position which would prejudice the Government. Panama would have to identify herself either with the Egyptian point of view or with the U.S. point of view. In the first case, she might sacrifice the enormous asset represented by present U.S. good will toward her. In the second case, the Government might find itself embarrassed domestically and exposed to the attacks of the three opposition groups mentioned above.

The second feature of my course of action if my objectives were continuance of the existing Panama Canal regime would be to seek to extract from the Suez dispute something of legitimate benefit for Panama. I thought I saw an opportunity to do this. For some time

Panama and the United States have been negotiating regarding the acquisition by the United States of the right to establish radar and defense installations on two hilltops adjacent to the Canal Zone. If, at this time, when the public of the United States is deeply concerned about the implications of the Suez problem and, particularly, its possible effect on our interests in the Panama Canal, Panama were to grant these defense sites, the effect on the public and Congress of the United States would be very favorable. The Government and people of the United States would take this as a courageous demonstration of solidarity on the part of Panama. This is exceedingly useful to Panama at this time. We foresee great difficulties in achieving enactment by the next Congress of the legislation implementing our last treaty revision and described above. The labor unions are going to oppose the legislation regarding equal salaries. The shipping interests are going to oppose the construction of the bridge, because they fear that its cost might result in increased charges for transiting the Canal. The good will which would be generated by an authorization of the radar sites would, in my judgment, be an important factor in achieving favorable action on the legislation at the next Congress.

I concluded by saying that as between the two basic objectives, nationalization or internationalization of the Canal, and continuation of the present situation, I felt that the second was the one which most served Panama's interest. If the Canal were internationalized or nationalized, the present peculiar relationship between Panama and the United States would, of course, come to an end. That relationship is one which has in the past and will in the future produce real benefits to Panama. These benefits are, in all probability, considerably more valuable than would be those which she might derive from the Canal even if it were nationalized.

At the conclusion of my remarks, Dr. Harmodio Arias asked if I had not observed that the Government of Panama had been following precisely the course that I had recommended. I replied that this was true; that I thought that the Government had done exactly what I felt most served the interests of Panama. It had expressed a keen interest in the Suez problem; it had expressed a desire to participate in the London Conference. This should fully protect it against the attacks of the local opposition sectors I had mentioned. Now the Government should desist from further statements on the subject; otherwise, it might find itself unwillingly embroiled in a problem which could only prejudice the interests of Panama.

Later in the evening, Dr. Arias stated to Ambassador Harrington that the discussion of the Suez problem had been helpful to him, because he had been under considerable pressure from some of the more nationalistic elements of the Government to follow a different policy.

Later in the same evening, I had a further conversation with the Acting Foreign Minister, Mr. Molino. He assured me that in his judgment the existing relationship between the United States and Panama as regards the Canal held benefits for Panama far exceeding in value anything that could be derived from any nationalized or internationalized status for the Canal. He described the existing relationship as a sort of a partnership between Panama and the United States. Any change would mean that, at best, other nations would participate in the benefits of that partnership.

From all the foregoing, it is my feeling that, if Panama supports us at this time, it will be a factor which she will use for years to come in negotiations with us on the many economic problems that arise in connection with the Canal.

In our subsequent conversation, Mr. Molino stated that he had directed the Panamanian Ambassador in Rome,[4] who is also accredited to Cairo, to go there and maintain contact with the Egyptian Government for the purpose of keeping Panama informed. I told him that I felt that this might prove to be a mistake, and that it might be better for him to advise his Ambassador to stay away from Cairo. This would prevent the possibility of Egypt's managing to draw Panama into the dispute in some way. I said that we would be glad, if he wished for us to do so, to keep Panama fully informed of the course of the negotiations in London.[5]

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[4] Rafael Vallarino.

[5] In a memorandum to the President, August 13, Secretary Dulles reported that Holland had a long talk with President Arias and other Panamanian officials regarding matters at issue between the United States and Panama, including the future status of the Panama Canal and the negotiations concerning the Suez crisis. "His talk was, I think, constructive, and on the whole, reassuring," the Secretary wrote: "He would be glad to report to you personally if you would desire this." (Department of State, Holland Files: Lot 57 D 295, Panama) The President, through his personal secretary, Ann Whitman, informed Holland's office that a meeting with the Assistant Secretary would not be necessary. A copy of Dulles' memorandum in Eisenhower Library, Whitman File, Dulles–Herter Series, bears the President's initials, indicating that he read the memorandum.

148. Telegram From the Acting Secretary of State to the Embassy in Panama[1]

Washington, August 15, 1956—7:43 p.m.

107. For Ambassador. Re Secto 1 repeated Panama.[2] Ambassador may wish recall to Panamanians Holland's recommendation further public statements identifying Panama with Suez dispute might well imperil U.S. public and governmental good will necessary for passage legislation implementing 1955 Treaty. This would certainly include nuisance tactics by Panamanian Ambassador London.[3] By its statements already published Panamanian Government has fully protected itself against attacks by domestic opposition and nationalistic elements. Further public statements there or London would seem prejudicial best interests Panama.[4]

Hoover

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[1] Source: Department of State, Central Files, 396.1–LO/8–1556. Secret; Priority. Drafted and approved by Holland.

[2] Secto 1, August 1, reads as follows: "Secretary and party arrived London 9:00 a.m. local time." (*Ibid.*, 396.1–LO/8–156)

[3] Roberto E. Arias.

[4] Telegram 149 from Panama City, August 16, reads as follows: "Foreign Minister assures me Panamanian Ambassador London will be instructed to refrain from 'nuisance' statements and activities and act only in accordance with Foreign Office directives." (Department of State, Central Files, 396.1–LO/8–1656)

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149. Memorandum of a Telephone Conversation, Between the Ambassador in Panama (Harrington) and the Acting Officer in Charge of Central American and Panamanian Affairs (Sowash), August 17, 1956[1]

SUBJECT

Long Distance Conversation with Ambassador Harrington in Panama City

Ambassador Harrington called me from Panama at 11:00 o'clock this morning. The conversation covered the following topics:

1. The Ambassador said that Panama had again rejected the United States position with respect to Article II of the 1936 Treaty in connection with the United States request for radar sites in

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[1] Source: Department of State, Central Files, 611.1913/8–1756. Confidential.

Panama. He said he had sent the Department a strong telegram on this subject[2] and wished the Department to consider carefully its implications of Panama's action with respect to our future policy toward that country.

2. He said that a telegram is being sent to the Department containing the text of a press release which he and Assistant Secretary Roderick believe should be issued at the conclusion of Mr. Roderick's visit to the Isthmus.[3] He thought that it was particularly desirable that this release be made in view of Panama's action on the radar sites question. He said that it deals solely with questions involving the implementation of the 1955 Agreements with Panama and does not mention the radar sites and Suez issues. He asked that, if possible, the Department telephone its clearance today in order that the release may be made to the press in Panama tomorrow morning. He suggested that the text be cleared with Mr. Roderick's office, too.

3. The Ambassador stated that he was also sending by cable the text of a protest regarding the London Conference made by the Panamanian Ambassador to London.[4] He requested that the text of this protest be carefully reviewed with a view to determining whether its language requires a counter-protest from this Government to Panama.

4. Ambassador Harrington inquired whether any decisions have yet been reached with respect to the special mission of the United States Government to the inauguration ceremonies in Panama on October 1.[5] I replied that an instruction should reach him over the weekend on this subject authorizing him to accept the invitation of

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[2] Telegram 148 from Panama City, August 16. (*Ibid.*, 611.1913/8–1656)

[3] Roderick was on a brief visit to Panama, August 14–19, to discuss activities of the Canal Zone Government, the Panama Canal Company, and the defense establishment in the Canal Zone, with particular emphasis on implementation of the recent treaty between the United States and Panama. Telegram 152 from Panama City, August 17, contained the text of Roderick's proposed press release. A handwritten note on the telegram indicates that the statement was cleared by telephone with Sowash on August 18, with some changes. (*Ibid.*, 611.1913/8–1756) A report on Roderick's conversations with Panamanian officials was forwarded to Gordon Gray on September 14. (Department of Defense, OASD/ISA Files, Country Files, Panama)

[4] In telegram 145 from Panama City, August 16, the Embassy reported that the Panamanian Ambassador in London had been instructed on August 15 to deliver a note to the British Foreign Office protesting Panama's exclusion from the 22-Power Suez Canal Conference. The note stressed the importance of Panama as a maritime nation with large tonnage. It stated, furthermore, that the Panama Canal was built on a lane under Panamanian sovereignty although certain specific rights for maintenance, sanitation, operation, and protection had been granted to the United States, and that according to a treaty in effect both the United States and Panama had a joint and vital interest in the canal. The note concluded that Panama reserved rights with respect to any decisions of the conference. (Department of State, Central Files, 396.1–LO/8–1656)

[5] Ernesto de la Guardia, Jr., was elected President of Panama in May 1956.

the Panamanian Government to send a special mission. I added that the names of the members other than himself, as Chief of Delegation, could not yet be made available and that this information would follow at a later date. I suggested and the Ambassador agreed that the Embassy time its acceptance so that the United States delegation will rank about midway in point of precedence for the ceremonies.[6]

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[6] Airgram 30 to Panama City, August 24, requested the Embassy to reply to the Panamanian note of August 15 regarding the London Conference in part as follows:

"In the note occasion was taken to state that Panama 'has granted to the United States of America certain rights [in the Canal Zone] for specified purposes relative to the maintenance, improvement, operation, and protection of the Panama Canal'.

"In view of this statement, I am under instructions from my Government to state, for the record, that under Article III of the Convention of 1903 Panama granted to the United States 'all the rights, power and authority within the zone . . . and . . . all auxiliary lands and waters . . . which the United States would possess and exercise if it were the sovereign of the territory within which said lands and waters are located to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power or authority'. Article III thus confers upon the United States exclusive jurisdiction within the Zone." (Department of State, Central Files, 396.1–LO/8–1656) Brackets and ellipses are in the quoted airgram.

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150. Despatch From the Ambassador in Colombia (Bonsal) to the Department of State[1]

No. 117 *Bogotá, August 20, 1956.*

REFERENCE

Department's Circular Instruction No. CA–1281, August 9, 1956[2]

SUBJECT

The Panama Canal in the Light of the Suez Crisis

I have read the above reference circular and the enclosed material with great interest and am glad to have this background material on a subject of such immediate importance. The following comments suggest themselves:

It is perhaps a minor point but it seems to me that the reference on page 4 of the memorandum to Panama's "transformation from a miserably misgoverned and backward province of Colombia" is somewhat infelicitous in a memorandum "the substance of the information" contained wherein "may be made available if requested."

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[1] Source: Department of State, Central Files, 611.1913/8–2056. Confidential.

[2] See footnote 1, Document 144.

The impression which the memorandum gives me is that the United States stakes its position, first, on the correctness of our interpretation of Article III of the Treaty of 1903 and, second, on the fact that "Panama is obviously in no position to challenge our position in the Canal Zone by threat of force." It seems to me that the example of Egypt should indicate to us that these are rather weak reeds on which to lean. It is not the fact that Panama has "a national guard of only 2500 ill-equipped men" which is going to decide the effectiveness of Panamanian opposition to our control of the Canal in the unhappy event that this issue should become acute. It would be rather the ability of our enemies in Panama and elsewhere to mobilize against us the opinions and the actions of a large proportion of the one million people of Panama, most of whom live in what the memorandum describes as the "teeming slums" of Panama and Colón.

I am sure the Department is aware that our problem in Panama calls for a considerably higher order of statesmanship than mere reliance on the relationship between the United States Armed Forces in the area on the one hand, and the Panamanian National Guard on the other, or on our, no doubt correct, interpretation of a treaty signed 53 years ago with a country which, although it tends ungratefully to forget it, at that time "owed its very existence as an independent republic" to the United States. I would also suggest that we would hardly wish to rest our case in discussing this matter with our friends in the other American republics on these points.

I know from experience that it is an irritating and frustrating experience to deal with the Panamanians on Canal matters. I was involved in the 1941 and 1942 negotiations. I am convinced, however, that the strength of our position in Panama will depend upon a continuance of the political rather than the military or legalistic approach. I do not, of course, suggest that we should abandon our military or legal rights but I do think that we will have to continue to work with the political problem with which we as well as statesmen and politicians in Panama are confronted and will continue to be confronted.

Philip W. Bonsal

151. Memorandum of a Conversation, Department of State, Washington, August 22, 1956[1]

SUBJECT

Philippine Base Negotiations
Panama
Brazil
Greece

PARTICIPANTS

Deputy Secretary Reuben Robertson, Defense Department
Admiral Radford, Joint Chiefs of Staff
Acting Secretary Robert Murphy

[Here follows discussion of the Philippine base negotiations.]

Panama. We had considerable discussion of general conditions in Panama affecting American interests and I voiced regret that routine operating problems such as wages paid to Panamanian laborers, commissary privileges, school facilities, etc., had created the volume of local dissatisfaction which seemed to be the case. I said that it is appreciated, of course, that some Panamanians attempt to exploit our presence in the area and that this psychology will undoubtedly continue to prevail. I raised the question of Nike sites and was pleased to obtain an immediate reaction from Admiral Radford to the effect that we are no longer interested in obtaining the Nike sites agreement from the Panamanians. He said that he and a number of others are opposed to the Nike program. It was agreed that we would simply have our Ambassador drop the matter without saying to the Panamanians for the moment at least that we had abandoned the project. I expressed the view that this reduction of our requirements would be most helpful in our present situation in Panama.

[Here follows discussion of military relations with Brazil and Greece.]

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[1] Source: Department of State, ARA Files: Lot 60 D 667, Panama 1956—Radar. Secret. Extract. Drafted by Murphy.

152. Letter From the Ambassador in Panama (Harrington) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Panama, August 24, 1956.

DEAR HENRY: In casting about for a sedative to curb the current upswing of Panamanian emotions arising from their disappointment over the benefits of the single wage scale provisions of the 1955 Treaty, I can think of nothing that would have a more sobering effect than a revival of talk in Washington about the possibility of a sea level canal across Nicaragua. Assuming that there soon will be a need for more adequate canal facilities it seems unwise to me, purely from a military point of view, to put all our eggs in one basket by considering a sea level canal across Panama. Perhaps now is not the time to introduce the idea of another canal but it behooves us to take a careful look before considering any such move in Panama.

Perhaps you can suggest a better palliative but the possibility of a canal across Nicaragua would soon bring about a realization among Panamanians that they would do well to accept gracefully the many benefits they are now reaping. I, for one, am glad that these issues have come out into the open. They have been coloring all of our negotiations, to our disadvantage, ever since I arrived here a year ago.

Sincerely yours,

Julian F. Harrington[2]

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[1] Source: Department of State, ARA Files: Lot 60 D 667, Nicaraguan Canal Route. Secret; Official–Informal.

[2] Printed from a copy which bears this typed signature.

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153. Memorandum of a Telephone Conversation Between the Secretary of State and the Assistant Secretary of State for Inter-American Affairs (Holland), Washington, August 29, 1956, 8:44 a.m.[1]

H. said he has a matter he does not want to handle in writing or at staff meeting. Another agency has received from a usually reliable source a report that the outgoing and incoming presidents of Panama met and agreed on a policy for the next administration to harp on the similarity to the Panama Canal of the Suez Canal. H. has a corresponding report from the local *Time* man. H. thinks we should ask the Nicaraguan Govt. confidentially if we can quietly send a 3-man team from Defense down to go over the course of the Nicaraguan Canal and compare conditions on the ground with plans, maps and studies we have and then leak it to the Panamanians. The Sec. said he is inclined to agree, but does not want to settle it on the phone. H. will ask for an appointment.

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[1] Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. Prepared in the Office of the Secretary of State.

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154. Memorandum of a Conversation Between the Secretary of State and the President, Washington, August 29, 1956, 9:30 a.m.[1]

[Here follows discussion of developments regarding the Suez Canal crisis.]

(4) I mentioned the attitude of Panama toward the Panama Canal and their conniving with Nasser and apparently deciding on a policy of making the Panamanian nationalization or internationalization of the Canal a major issue of Panama politics. I said this made me feel more than ever the desirability of instituting talks with regard to the Nicaragua Canal. I said I thought we needed to have some alternative. The President authorized me to proceed on this as soon as possible, pointing out that already ships were being built too big to go through the Panama Canal and that a sea level canal through Nicaragua would be much more practical.

[Here follows discussion of matters unrelated to Panama.]

JFD

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[1] Source: Eisenhower Library, Dulles Papers, Meetings with the President. Secret. Extract.

155. Memorandum of a Conversation Between the Secretary of State and the President, Washington, August 30, 1956, 4:30 p.m.[1]

[Here follows discussion of developments regarding the Suez crisis, including a brief discussion of Secretary Dulles' briefing of the Latin American Ambassadors earlier that day about Suez.]

The President also spoke about the Nicaraguan canal and said that if occasion arose he might mention at his press conference that he had for a long time been in favor of that. There was need of more facilities and instead of putting, in effect, a second canal alongside the Panama Canal, it would be better to have the second canal further apart so that they would not be subject to the same risk either of natural or man-made destruction.

[Here follows discussion of matters unrelated to Panama.]

JFD

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[1] Source: Eisenhower Library, Dulles Papers, Meetings with the President. Secret. Extract.

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156. Memorandum of a Telephone Conversation Between the Secretary of State and the Assistant Secretary of State for Inter-American Affairs (Holland), Washington, August 30, 1956, 5:30 p.m.[1]

The Secretary called Holland and asked him what reaction he had gotten from the Latin Ambassadors as a result of today's briefing meeting. Holland said he had had questions to take up with certain of them but, knowing them as he did, he got the idea they were impressed.

Sec. said the President said he might mention the Nicaraguan Canal at his press conference tomorrow. He suggested saying he had always been in favor of a more adequate waterway and he favored a duplicate one, putting them far enough apart so that they would not be subject to the same hazards of nature—that he had been for this for a long time. The Secretary said he thought we had a treaty covering this.[2] Holland said he would produce it (and did)—Holland said he thought it would be a big mistake for the President to be opining on this subject now. It was a very emotional thing in Panama at the moment. Anything of that nature would be misconstrued in Panama. He thought it very unfortunate were the Pres. to say this at this time.

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[1] Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. Prepared in the Office of the Secretary of State.

Holland said he would have ready some comment on this by tomorrow morning.[3]

(The Secretary said he wanted a note to remind him to speak to the President re the Nicaraguan Canal).

I have treaty.

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[2] A reference to the Bryan–Chamorro Convention of 1914; for text, see 39 Stat. 1661.

[3] In a memorandum to Dulles, August 31, Holland summarized the provisions of the Bryan–Chamorro Convention between the United States and Panama, which, he noted, was "the basic agreement which would govern our relations with Nicaragua should it become the intention of our Government to construct an interoceanic ship canal in that country." (Department of State, ARA Files: Lot 60 D 667, Nicaraguan Canal Route 1956)

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157. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Panama (Harrington)[1]

Washington, September 6, 1956.

DEAR JULIAN: The suggestion contained in your letter of August 24, 1956[2] of reviving discussion of construction of a sea level canal across Nicaragua definitely has propaganda possibilities and has been well received here.

If used judiciously as a propaganda measure in an effort to bring the Panamanians to their senses, it may well cause the Panamanian Government to pause and perhaps reflect upon the possible consequences of the course upon which it appears to have embarked. It did occur to me, however, that a reverse effect might result if instead the Panamanian Government should interpret the move as evidence of weakness or weariness on the part of this Government in the defense of our rights in Panama and thus inspire the Panamanian Government to redouble its efforts for control of the Panama Canal.

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[1] Source: Department of State, ARA Files: Lot 60 D 667. Secret; Official–Informal. Drafted by Price.

[2] Document 152.

I have discussed the idea with the Secretary, Mr. Roderick, officers on my staff and others who I thought would be interested and they have endorsed it as a good idea. If it is decided to act, to make any activity on our part more authentic, I am considering asking the Nicaraguan Government permission, in accordance with the terms of Article I of the Bryan–Chamorro Convention of 1914, to send a three to five-man survey team to Nicaragua to travel over one or more of the proposed routes that have already been surveyed. I think that if word of this action is picked up in Nicaragua by the Panamanians through their own intelligence channels the desired effect may be obtained. The possibility does exist that this Government may actually undertake the construction of such an interoceanic canal through Nicaragua to satisfy growing commercial and military demands. There is deep concern here over the current trend in Panama.

If action is taken on your suggestion you will be informed immediately.

Sincerely yours,

Henry F. Holland[3]

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[3] Printed from a copy which bears this typed signature.

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158. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Operations Coordinator (Richards)[1]

Washington, September 19, 1956.

SUBJECT

Nicaraguan Canal Survey

Mr. Holland has discussed the proposed Nicaraguan Canal Survey with the Secretary, who it is understood, has given preliminary approval of the general idea. It would be conducted by a small team headed by a United States Army engineer. The purpose would be to impress Panama with the possibility of our exercising our option to construct a canal in Nicaragua in order to discourage possible moves by Panama, inspired by developments at Suez, to challenge our Treaty rights in the Canal Zone, also to bring about a more reasonable attitude on the part of Panama on Canal Zone problems. Its effectiveness would depend upon the degree to which we could impress the Panamanians that we are in earnest. Miss Whiteman of the Legal Division is currently engaged in a study of the scope of our treaty rights in Nicaragua. If Mr. Hoover agrees, the next logical step would be for State to consult with Defense on the matter, as suggested at the OCB luncheon on September 12, 1956,[2] in order that the necessary arrangements can be made, if Defense agrees.

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Luncheon Items. Secret.

This plan should not be confused with the related proposal that we actually proceed with the construction of a canal in Nicaragua, even though this may some day be done. A decision to actually build such a canal will require detailed studies and consultation among the interested Government agencies. This decision does not lie with the Department of State, although State will of course have responsibility for the necessary international arrangements. Appropriate legislation and a further agreement with Nicaragua and possibly Costa Rica, and others would be necessary. In view of the limited purpose of the instant plan, care must be exercised to avoid giving rise to undue hopes on the part of Nicaragua and possible inflationary effects upon the Nicaraguan economy, particularly since we cannot at this time take the Government of Nicaragua into our confidence as to the immediate purpose of the present plan. The present Government of Nicaragua is expected to cooperate willingly with this government on both the proposed survey and the actual construction of a canal, if decided upon, although no approach has been made on either project by this Government.

There are attached for your information two memoranda on the construction of a Nicaraguan Canal.[3]

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[2] According to the preliminary notes of that meeting, prepared by Arthur L. Richards, the discussion regarding the canal survey went as follows:

"Mr. Gordon Gray mentioned that two weeks ago it had been suggested that the Army send a US Army Engineer to Nicaragua to start dusting off openly the old Nicaragua Canal Survey. The thought was that this might have a salutary effect on Panama. Mr. Gray asked how the Department of State viewed this proposal.

"Mr. MacArthur said he was not familiar with it but would ask Mr. Henry Holland to communicate with Mr. Gray regarding it.

"It was left that if State and Defense agreed on this proposition, the OCB need not be seized further with it." (*Ibid.*)

[3] Reference is to Holland's memorandum to Dulles of August 31 regarding the Bryan–Chamorro Convention (see footnote 3, Document 156) and a memorandum by Robert T. Merrill, Director of the Shipping Division, September 12, discussing the practicability and cost of building a Nicaraguan interoceanic canal.

159. Editorial Note

At the first meeting of the Inter-American Committee of Presidential Representatives on September 19, José Isaac Fábrega, the Personal Representative of the President of Panama, presented a memorandum to Milton S. Eisenhower, Chairman of the Committee, regarding the implementation of the Panama Canal Treaty of 1955. At Fábrega's request, Milton Eisenhower forwarded the 12-page memorandum and annex to President Eisenhower on September 19, under cover of a letter to Ann C. Whitman, the President's personal secretary. On the same day, Colonel Andrew J. Goodpaster, the President's Staff Secretary, transmitted the memorandum and annex to Secretary Dulles. "The President," he explained, "would appreciate a report on the matter, looking to a reply to the Panamanians by himself or by the Secretary, as appropriate." (Eisenhower Library, Whitman File, Dulles–Herter Series) The Committee of Presidential Representatives had been formed pursuant to a suggestion by President Eisenhower during the meeting of the Presidents of the American Republics at Panama. See volume VI, Documents 109 ff.

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160. Telegram From the Ambassador in Panama (Harrington) to the Department of State[1]

Panama City, September 19, 1956—6 p.m.

211. During 2 hour private talk with President-elect De La Guardia today, I sought his assistance in reversing current trend in U.S.–Panama relations—a trend which can be expected to assume more serious proportions after the National Assembly convenes. I found De La Guardia to be equally concerned over present status our relations. The meeting was arranged at my request.

I pointed out that it has been consistently our national policy to improve Panama's stability and economy and that, given the importance of the Canal Zone to Panama, it should be the announced policy of Panama to associate itself closely with the U.S. and to work harmoniously with the authorities of the Canal Zone. I expressed the view that such a policy enunciated by him and supported by deeds would do much to ward off anticipated irresponsible discussion in the new National Assembly and elsewhere, and that it would create an atmosphere of mutual respect and confidence, would go a long way to offset the unfavorable impression that Panamanian support for Nasser has created in the U.S. and would be of substantial assistance to us in obtaining early Congressional action to implement 1955 treaty. I expressed the view that the highly skilled lawyers now serving on the Foreign Relations Council, rather than statesmen, seemed to be formulating Panamanian foreign policy and developing legalistic position which inevitably would widen the breach between us and lead to bad feeling and acrimonious debate in the press. I told De La Guardia that I would welcome the opportunity of striving to achieve the sort of atmosphere I had in mind and that he could count on the whole-hearted support of the Governor and military authorities in the Zone. I said that the plight of Panamanian workers who will soon lose commissary privileges (a matter about which the President-elect is known to be gravely concerned) is being carefully and sympathetically considered by the Canal Zone authorities and that while no automatic compensatory wage increase was contemplated by the negotiators of 1955 treaty the best interests of the workers and of Panama will always be borne in mind. I stated that in an improved atmosphere Panama had much to gain and conversely had much to lose by a continuation of the present trend.

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[1] Source: Department of State, Central Files, 611.19/9–1956. Confidential.

De La Guardia gave every evidence of welcoming my observations and said that they merited serious consideration. He promised to get in touch with me at an early date concerning them.

There is serious doubt in my mind that De La Guardia can persuade Harmodio Arias and Octavio Fabrega to alter their present course or whether he can restrain the members of the new National Assembly from making attacks against the U.S. and the failure of Congress to implement the treaty. Nevertheless the President-elect recognizes the need for improved relations and I feel reasonably confident that he will take advantage of his inaugural address to call for patience and understanding and possibly a neighborly approach to Canal Zone problems.[2]

Harrington

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[2] Telegram 142 to Panama City, September 21, informed Ambassador Harrington as follows: "Department heartily commends your initiative and able presentation US viewpoint (Embtel 211) and is hopeful your plain-spoken approach will contribute to reversal present trend." (*Ibid.*)

161. Memorandum From the Secretary of State to the President[1]

Washington, September 28, 1956.

SUBJECT

Panamanian Memorandum on Certain Current Problems in United States–Panama Relations

Responding to your request of September 19,[2] I enclose a report which comments on the several points raised in the Memorandum given to you by the Panamanian Delegate to the Conference of the Inter-American Committee of Presidential Representatives. The Panamanian Delegate's memorandum is also returned herewith.

The points raised in the memorandum reflect a difference of interpretation which has arisen between the Governments of Panama and the United States of certain important provisions of the agreements signed on January 25, 1955. By unilateral interpretation the Government of Panama is attempting to give a meaning to certain provisions which goes beyond their stated terms and the intentions of the United States Government in their negotiation. These differences have been discussed at length with Panamanian officials through regular diplomatic channels and by Assistant Secretaries Holland and Roderick in personal interiews with the President and President-elect of Panama and their advisors.

The United States position in these matters is fully in accord with the provisions of the 1955 Agreements, the arguments of Panama notwithstanding. It is our policy to treat Panama justly and even generously, in recognition of our special relationship in the Canal enterprise, but at the same time to keep intact our treaty rights on the Isthmus and to insist that observance of treaty provisions be mutual and complete.

In view of the desirability of keeping these discussions in regular diplomatic channels, I propose, if you agree, to have the Department of State reply to the Memorandum along the lines of the attached report.[3]

JFD

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[1] Source: Eisenhower Library, Whitman File, International File.

[2] See Document 159.

[3] Eisenhower approved this recommendation in a handwritten notation on the source text and added: "We should be generous in all small adm details. Our firmness should be in holding fast to basic principles and purposes of treaty."

[Enclosure]

REPORT TO THE PRESIDENT ON THE MEMORANDUM OF THE GOVERNMENT OF PANAMA DATED SEPTEMBER, 1956

The Panamanian delegate to the conference of the Inter-American Committee of Presidential Representatives left with you a Memorandum and Annex in which were set forth the Panamanian viewpoint on certain current problems in United States-Panama relations. The following comments are made in response to your request for a report on the subject.

Point 1 of the Memorandum treats of the expected increase in the cost of living to non-American citizens who work in the Canal Zone and reside in Panama as a result of their forthcoming loss of the privilege of buying in the Canal Zone commissaries. Panama urges that a compensatory wage increase be granted. She has argued that we have an implied commitment to do so.

The provisions of Article XII of the Treaty of 1955 which terminate the commissary privileges of United States Government employees in the Canal Zone who are not citizens of the United States and who reside outide of the Canal Zone become effective December 31, 1956. This provision was agreed to by the United States Government at the insistence of the Government of Panama which argued that the privilege obtaining prior to the conclusion of the 1955 Treaty constituted an unjust and unfair competition with the economy of Panama. The United States gained nothing by this provision of the Treaty. Instead, this provision will result in a substantial loss of revenue to the Panama Canal Company. Since the termination of these privileges has become a treaty obligation on the part of the United States, it has no choice but to put this provision into effect on the date specified, in the absence of any indication from the Government of Panama that it desires to waive this right and request postponement of the effective date of the provision. There is no provision in the 1955 Agreements obligating this Government to grant a compensatory wage increase to the affected employees.

The United States Government recognizes, however, that the withdrawal of commissary privileges from a group of its employees may result in an increase in their cost of living. Periodic studies are regularly conducted by the Panama Canal Company to determine cost of living trends in the economies of both the Canal Zone and Panama. As a result of these studies, employees' wages are adjusted from time to time to meet changes in the costs of living. Should these continuing periodic studies show the employees of the Zone, despite the wage increase already granted in May 1955, to be at a disadvantage as a result of their loss of commissary privileges, consideration will be given by the Zone authorities to the feasibility of a wage increase. Such action if taken would be routinely taken pursuant to this Government's constant interest in the welfare of its employees and not because of any alleged obligation, implied or otherwise, in the 1955 Agreements.

Point 2 of the Memorandum deals with the provision of Item 1 of the Memorandum of Understandings Reached which provides for the establishment of a single basic wage scale in the Canal Zone, and expresses concern regarding the statements of certain high officials of the United States Government to the effect that, pursuant to the new classification of positions now being made, the rates of remuneration for the different positions will continue to be related to the geographic area from which the bulk of the employees in each category of positions comes.

Under Item 1 the United States Government has agreed, subject to the enactment of the necessary legislation, to govern the labor practices of United States agencies in the Canal Zone by the following precepts:

> (a) All positions will have a basic wage level, the same for all employees eligible for appointment thereto without regard to United States or Panamanian citizenship. In the case of an employee who is a United States citizen, however, there will be added an increment representing an overseas differential plus an allowance for those elements which operate to reduce the disposable income of such an employee as compared with an employee who is a resident of the area. The United States citizen will also, for obvious reasons, be eligible for greater leave benefits and travel allowances.
>
> (b) Legislation will be sought for uniform application of the Civil Service Retirement Act to all United States and Panamanian citizen employees of this Government in the Canal Zone.
>
> (c) Equality of opportunity will be afforded to Panamanian citizens for employment in all United States Government positions in the Canal Zone for which they are qualified except where security factors serve to make undesirable the employment of non-United States citizens. Positions will be evaluated, classified, and titled without regard to the nationality of the incumbent or prospective incumbent.
>
> (d) Panamanian citizens will be afforded opportunity to participate in such training programs as may be conducted for employees by United States agencies in the Canal Zone.

These provisions, when the Congress enacts the necessary enabling legislation, obviously will confer important benefits upon all locally recruited employees. Under subparagraph (a) employees in any non-security position will receive the same base rate of compensation without regard to nationality and there is no intention that the rates of pay of individuals in the same job should vary with the area of recruitment. In those categories of jobs for which any employees must be recruited in the United States, the basic rate of pay will be the rate paid for comparable employment in the United States and all employees in that job, Panamanian as well as United States citizen, will receive the United States rate. In those categories of jobs which can be filled entirely by local recruitment, the basic rate will be based on the rate paid for comparable employment in Panama, and all employees in that job, United States citizen as well as Panamanian, will receive the same basic rate. It is appropriate to note in this connection that even the rates based on those in Panama will be higher than the actual rates paid there.

The plan outlined above is fully in accord with the provisions of the agreement with Panama. It was set forth in detail during the public hearings on the Treaty before the Foreign Relations Committee of the United States Senate and was described in the Senate Committee Report on the Treaty.[4] It involves no discrimination of any kind and removes even the appearance of discrimination to which the former pay plan in the Canal Zone may have been subject.

Point 3 of the Memorandum questions the interpretation the United States Government places on Item 8 of the Memorandum of Understandings Reached, which reads as follows:

> "8. In general connection with the matter of the importation of items of merchandise for resale in the sales stores in the Canal Zone, it will be the practice of the agencies concerned to acquire such items either from United States or Panamanian sources unless, in certain instances, it is not feasible to do so."

The Memorandum takes exception to this Government's interpretation of the word "feasible" as used in Item 8. Panama asserts that it can have but one interpretation, that of "possible". Had "possible" been intended, that word would presumably have been included. Such meaning, if accepted by the United States Government, would restrict purchases of merchandise for resale in the Zone to United States and Panamanian sources only, irrespective of other contingent factors, including reasonableness of price.

It is the view of this Government that the purpose and intent, as disclosed by the record of the negotiations, is to give preference to United States and to Panamanian sources over other sources in the supplying of goods for resale in the Canal Zone. However, that preference, while considered to be real and valuable, is not absolute or unlimited. The word "feasible", far from being synonymous with "possible", requires this Government to purchase merchandise for resale in the Zone from United States or Panamanian sources only if the object of purchase is available in the desired quality, variety or kind, in adequate quantity, at a reasonable price, and with adequate assurance of continuous supply. Failing any of these contingencies, the United States Government is free to purchase from sources in third countries, if it desires. The wording of Item 8 was deliberately chosen to permit appropriate competitive safeguards for the proper protection of this Government and the consumer in the Canal Zone. It is noteworthy that, despite this limited interpretation, Panamanian sales of goods and services to the Zone are steadily increasing, in the last quarter year alone registering a jump of over 50%. At the present rate these sales will exceed $20,000,000 for the current year.

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[4] The hearings are printed as *The Panama Treaty: Hearings before the Committee on Foreign Relations, U.S. Senate, 84th Cong., 1st Sess., on the Treaty of Mutual Understanding and Cooperation with the Republic of Panama, July 15, 18, and 20, 1955* (Washington, 1955). The Senate Report is printed as Senate Report 11, *Report of the Committee of Foreign Relations on the Treaty of Mutual Understanding and Cooperation with the Republic of Panama* (Washington, 1955).

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162. Memorandum From the Officer in Charge of Central American and Panama Affairs (Sowash) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, October 2, 1956.

SUBJECT

Nicaraguan Canal Survey

From the immediate viewpoint of its intended purpose vis-à-vis Panama and from the long range viewpoint of possible serious interest in actual construction of the Nicaraguan Canal, the proposal to proceed with an immediate survey of the proposed route across Nicaragua is both timely and desirable. Panama's obvious design to reap advantages from the present Suez controversy appears to be momentarily stymied by an apparent uncertainty in what direction to proceed at this time. She has clearly indicated her solidarity with the Egyptian position in various ways, most recently by inviting the Government of Egypt to send a special mission to the Panamanian inauguration on October 1. In his inaugural address President de la

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[1] Source: Department of State, ARA Files: Lot 60 D 667, Nicaraguan Canal Route 1956. Secret.

Guardia stated that the treaties with the United States do not adequately meet Panama's "national aspirations" and that he was confident that the problems in Panama's relations with the United States will ultimately be resolved in favor of Panama's interests. There is obviously a continuing need for some gesture to impress upon Panama the possibility of our proceeding with a canal in Nicaragua which, insofar as Panama is concerned, would be in competition with the Panama Canal. A quiet survey by a small team of the Nicaraguan route, news of which would inevitably leak from Nicaragua, would seem an effective way of bringing Panama to some realization of the possible consequences of her present conduct. The same thought also has occurred to a number of Congressmen and Mr. Bonner's[2] Committee on Merchant Marine and Fisheries reportedly is ready to announce a new interest on the part of Congress in a Nicaraguan canal. Several Panamanian press articles have taken the position that talk about a Nicaraguan canal is mere bluff on our part and an actual survey might give them some second thoughts.

The assassination of President Somoza[3] makes the present a somewhat less propitious time in which to approach the Nicaraguan Government on this subject than that which existed a fortnight ago. Presumably President Luis Somoza would welcome our initiative in this matter as much as his father. In many quarters in Nicaragua the proposed survey would be most welcome as a harbinger of considerable future benefits to Nicaragua. In ultra-nationalistic and leftist quarters, it will be a tocsin of alarm for those who profess to see in the canal United States encroachment and domination. In short, it will be a pretty hot chestnut to hand the new Nicaraguan administration. For this reason I would suggest, if the Defense Department concurs in the survey proposal, that Ambassador Whelan be instructed to sound out President Luis Somoza in advance of our actual request for permission in order to establish what the probable climate receptivity would be. A public turndown by Nicaragua on whatever grounds would be extremely counter-productive.

At your meeting with Mr. Gray on October 3 I suggest that you continue to support a proposal for a survey of the Nicaraguan route by a small team of two or three engineers. So far as its effect upon Panama is concerned, the results should be greater if we go about this business very quietly and without publicity and allow Panama to learn of it first from its own intelligence sources in Nicaragua. Then, in reply to inquiries on their part we should simply confirm the presence of the survey team without further comment leaving Panama to draw its own conclusions. Ambassador Harrington has suggested that Governor Potter of the Canal Zone, who participated in the survey made in 1929 and 1930 of the Nicaraguan route and who was in 1931 and 1932 the first chief of the Nicaraguan Hydrographic Office, be a member of the new survey party. His participation would not go unnoticed by the Panamanians.

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[2] Congressman Herbert C. Bonner (D.–N.C.).

[3] President Anastasio Somoza died on September 29.

I understand that there is interest in the highest quarters in this Government in the possibility of actually constructing a Nicaraguan canal. This would be an extremely weighty matter to be considered by the several United States agencies involved. It should not be confused with the present proposal.

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163. Memorandum of a Conversation, Department of State, Washington, October 3, 1956[1]

SUBJECT

Radar Sites in Panama

PARTICIPANTS

Mr. Finucane, Under Secretary of the Army
Mr. Bacon, Deputy Assistant Secretary of the Army
Col. Hanford, Director of Western Hemisphere Affairs, Dept. of Defense
Mr. Rubottom, Acting Asst. Secretary for Inter-American Affairs
MID—Mr. Wollam
MID—Mr. Sowash

Advantage was taken of the call of Mr. Finucane and Mr. Bacon to raise the subject of our future course in the controversy with Panama regarding the United States request for radar sites in Panama. While Mr. Bacon seemed to believe that these sites eventually would be needed, Mr. Finucane expressed great doubt that sites in Panama are needed. He said that technical developments in this field are taking place with such rapidity that the plans on which the United States request was based probably already are obsolete. It was pointed out to Mr. Finucane and Mr. Bacon that the United States request and our subsequent pressure for it were made at the request of the Army who assured us that the sites were essential to the defense of the Canal. This issue, it was further stated, had gravely affected our relations with Panama and probably had some influence on the attitude assumed by Panama with respect to the

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[1] Source: Department of State, Central Files, 711.56319/10–356. Confidential. Drafted by Sowash.

Suez issue. Furthermore, by bringing out Panama's adamant attitude regarding Article II of the 1936 Treaty, this issue has jeopardized this Government's future use of Article II in obtaining defense sites in Panama. It was, therefore, disturbing to learn now that the Army probably will conclude that it does not really need these sites.

It was agreed that State would await the pending decision of the Joint Chiefs of Staff on this matter and would then decide, in the light of that decision, how best to extricate this Government from the position into which it has been forced by the Army's volte-face.[2]

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[2] At a meeting of the Secretary's Staff on October 4, the subject of the proposed Nicaraguan canal survey was discussed. The following portion of the unsigned notes of that meeting summarizes the discussion as follows:

"Mr. Rubottom reported that he had a meeting with Under Secretary of the Army Finucane yesterday and that the Defense Department opposes any survey for a Nicaraguan Canal at this time. He added that studies by the Department's legal staff of the records of fifty years ago revealed a great interest of Costa Rica and El Salvador in such a project, and that their interest will complicate matters. Mr. Rubottom noted that the Secretary had answered a question regarding the Nicaraguan Canal at his press conference and that Rep. Bonner of the House Maritime Committee had expressed an interest in the project. In view of the public and Congressional interest, he recommended that we not push the Nicaraguan Canal survey at this time since it could embarrass President Luis Somoza." (*Ibid.*, Secretary's Staff Meetings: Lot 63 D 75)

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164. Letter From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in Panama (Harrington)[1]

Washington, October 5, 1956.

DEAR JULIAN: I refer to your letter of September 11 addressed to Henry Holland in which you further discussed the subject of the Nicaraguan Canal.[2] Henry has now left the Department and since I have assumed his duties and inherited his problems, I take the liberty of replying to your letter and bringing you up to date on the status of the thinking here.

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[1] Source: Department of State, ARA Files: Lot 60 D 667, Nicaraguan Canal Route 1956. Secret; Official–Informal. Drafted by Price.

[2] In this letter, attached to the source text but not printed, Ambassador Harrington indicated that he was delighted to learn that the idea of reviving discussion of a canal across Nicaragua had been well received. He suggested that if a survey team were to be sent to Nicaragua, the Department of State and the Department of the Army might consider the inclusion of Governor Potter on it.

Since the idea was originally proposed there have been several joint discussions between State and Defense, and the Secretary and President have expressed their interest in the matter, both from the point of view of (1) a propaganda ruse for the purpose of causing the Panamanians to pause and give serious thought to revision of their present head-strong policy of non-cooperation and of (2) actual construction of a canal across Nicaragua. Tentatively, favorable consideration was given the first point and somewhat less serious consideration accorded the second; however, in a recent meeting at which State and Defense officers were present it was the consensus to defer action and temporarily hold in abeyance use of the plan for purposes of propaganda ruse or construction of a Nicaraguan Canal due to the following considerations: (1) the death of Somoza, (2) the difficult problem with which the new Government of Nicaragua would be confronted were a request made to send a survey team, or more difficult, the Bryan–Chamorro Treaty invoked, (3) the inauguration of the new Panamanian President, it being the thought that his administration should be given a fair opportunity to demonstrate its policy and the course of action it intends to pursue in its relations with the United States Government, (4) nationalistic elements in Central America and elsewhere would be expected to raise a hue and cry against the project and (5) the Government's present policy toward Panama, in the light of existing circumstances, and at the direction of the White House, is one of considerable tolerance in the inessentials but of holding fast where our jurisdictional rights are challenged. The five points are not listed in the order of discussion or necessarily in order of importance. It was also the feeling here, particularly in Defense, that to include Governor Potter in the survey team would put him in an impossible position vis-à-vis the Panamanians.

Here the matter stands at the moment for use at such time in the future when circumstances warrant. Should you care to advance any argument to the contrary, please feel free to do so.

Sincerely yours,

Roy R. Rubottom, Jr.[3]

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[3] Printed from a copy which bears this typed signature.

165. Memorandum From the President to the Secretary of State[1]

Washington, October 10, 1956.

Herewith is a copy of a note from the President of Panama that I should like for you to read.[2]

As you know, I have in the past been completely sympathetic with some of Panama's complaints as to our methods and practices of operation in the Canal Zone.

Just what President de la Guardia had in mind when he said he had "almost despaired as to the present and future of our relations," I do not know. I just think there is possibly here a problem with which the State Department should keep continuous and intimate touch.

D.E.

P.S. Please send me a draft of a possible reply to President de la Guardia.

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[1] Source: Department of State, Central Files, 611.19/10–1056.

[2] Dated October 4, this letter reads as follows:

"I wish to express my deep appreciation for having a man of Mr. Nelson Rockefeller's talents as a representative of your Government at my inauguration.

"Even though I have always felt that there is no good reason for our two countries not to live in perfect understanding, I had almost despaired as to the present and the future of our relations when Mr. Rockefeller arrived in Panama.

"In my opinion, his breadth of view, his grasp of our problems, his sense of fairness, his friendliness and his decency have completely changed the picture. The optimism which I expressed in my inaugural address as to the possibility of reaching a favorable solution concerning the differences of opinion which have recently arisen between our government and some officials of the United States government has, thanks to his attitude, found a justification and my despair has turned into a fresh hope. All of this makes me very appreciative of Mr. Rockefeller's visit to Panama and I wish to thank you very sincerely for having sent him to us."

166. Memorandum From the Secretary of State to the President[1]

Washington, October 17, 1956.

SUBJECT

Letter from the President of Panama[2]

I have given careful thought to the note sent to you by President de la Guardia and I agree that it raises a serious new aspect of an old problem with which the Department of State has kept in close touch. A suggested reply is enclosed as you requested.

President de la Guardia's letter as well as the proposed reply must, of course, be considered in the context of our present delicate relations with Panama. A background memorandum setting forth the most significant recent developments is also enclosed.

The suggested reply has been prepared with this background very much in mind and the phrasing carefully chosen to best promote our long-range policy objectives.

John Foster Dulles[3]

[Enclosure 1][4]

SUGGESTED REPLY

DEAR MR. PRESIDENT: I wish to acknowledge receipt of your letter of October 4, 1956 and to say how much I appreciate your generous expressions regarding our mutual friend, Nelson Rockefeller. I fully share your evaluation of him. I am confident that Ambassador Harrington and the other officials of the United States dealing with matters between our two Governments have the same friendliness toward Panama and warm interest in her welfare that you so rightly attribute to Mr. Rockefeller.

I have read your statesmanlike inaugural address which reflected your optimism regarding the future course of our relations. I believe that much has been accomplished during the past few years. I well recall that when I assumed office there were pending before each of our Governments a number of requests made in good faith and with sincerity by the other. The recent revision of the treaties between our countries has eliminated or established the basis for eventual elimination of many of the problems to which these requests relate. On the part of the Government of the United States, the draft legislation necessary for the implementation of those provisions of the 1955 agreements which are conditional upon Congressional authorization will again be submitted at the forthcoming session of the Congress. You may be assured that problems which arise in our relations will be given prompt and effective consideration.

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[1] Source: Department of State, Central Files, 611.19/10–1756. Confidential. Drafted by Rubottom.

[2] See footnote 2, *supra.*

[3] Printed from a copy which bears this stamped signature.

[4] Drafted by Rubottom on October 16.

I cannot conclude this letter without expressing to you again the great satisfaction and inspiration which I, and I am sure every other President, derived from our historic meeting in the capital of your lovely country. I am particularly happy to have met you personally at that time and I take this opportunity to express to you my best wishes for your success and happiness during the term of office upon which you have just entered.

Sincerely,

[Enclosure 2][5]

CURRENT STATUS OF UNITED STATES–PANAMA RELATIONS

President de la Guardia was inaugurated on October 1 for a four-year term as President of Panama. He has indicated a desire to improve the state of relations with the United States, and for this reason the Department and other interested agencies of this Government are seeking to strengthen his position in all appropriate ways. Our policy is guided by your directive that we should be generous in all small administrative details but hold fast to the basic principles and purposes of the treaties with Panama. Pursuant to this policy, the Panama Canal Company announced on October 13 an average nine percent wage increase for locally recruited labor in the Zone as tangible evidence of our desire to cooperate with his administration.

While there is reason to hope, therefore, that the advent of the de la Guardia Administration may bring an improvement in our relations with Panama, President de la Guardia will first have to arrest a dangerous drift in Panama away from its traditionally cordial relations with the United States. The extremely generous treatment accorded Panama in the agreements signed on January 25, 1955 has failed to elicit from Panama a new attitude of appreciation and cooperation. Before the ink was dry on these agreements, high Panamanian officials were stating publicly that the agreements did not satisfy Panama's aspirations and a deliberate campaign was launched to expand, by unilateral interpretation, many of the concessions made to Panama in these agreements. While inspiring a public belief that the United States is failing to comply with its treaty commitments, the Government of Panama has not hesitated to refuse to honor its own treaty obligations and has declined to cooperate in several recent requests of this Government, including an adamant refusal to make available under Article II of the 1936 Treaty two sites for radar installations requested by this Government for the defense of the Canal and which would serve as well for the defense of Panama City.

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[5] Drafted by Sowash on October 16.

These problems are recent developments over and above the usual attempts at encroachment upon our jurisdictional rights in the Zone. The Suez controversy has given a new focus to these problems. In her attempts to fish in troubled waters, Panama has openly displayed her sympathy with the Egyptian position in the obvious hope of establishing precedents favorable to her own long-term ambitions regarding the Panama Canal. She was the only American State to endorse Nasser's call for a conference on the Suez, separate from the London meetings.

Ex-President Ricardo Arias, in an unprecedented speech, summarizing the accomplishments of his Administration at the inauguration of his successor on October 1, not only made only incidental reference to the Meeting of Presidents in July and failed to mention priority assistance given Panama by the United States in obtaining Salk vaccine, but also went out of his way to excoriate the United States and to charge the United States with failure to comply with its treaty obligations. His criticism of the United States has been enthusiastically endorsed by a resolution passed by the National Assembly. Despite this, Panama has requested agrément for Arias as next Ambassador to the United States. We expect to recommend that agrément be granted after a delay of sufficient length to make plain that his remarks have not gone unnoticed.

In contrast, de la Guardia in his inaugural speech expressed confidence that the spirit of justice which moves the American people will result in the resolution of problems with the United States in a manner "favorable to Panama's interests". The reasonable and conciliatory attitude which de la Guardia thus far is displaying affords a basis for the hope that United States-Panama relations will be restored to their traditional cordiality.

167. Letter From the Assistant Secretary of Defense for International Security Affairs (Gray) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, November 27, 1956.

DEAR MR. RUBOTTOM: We have recently been advised by the Department of the Army that their requirement for two radar sites in Panama, originally intended for use in connection with its then proposed Nike program in the Canal Zone, is still valid since they will be used for antiaircraft purposes. This places in a different light our decision taken in August to drop negotiations for these sites with the Republic of Panama. It is accordingly requested that negotiations with Panama be resumed at the earliest convenient time.[2]

Sincerely yours,

Gordon Gray

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[1] Source: Department of State, Central Files, 711.56319/11–2756. Secret.

[2] In his reply of December 14, Rubottom stated that he would initiate the necessary action immediately to reopen negotiations with the Government of Panama through the Embassy for the purpose of obtaining the required radar sites. (*Ibid.*)

168. Memorandum of a Conversation, Department of State, Washington, November 28, 1956[1]

SUBJECT

Courtesy Call of Panamanian Foreign Minister Boyd

PARTICIPANTS

Mr. Aquilino Boyd, Foreign Minister of Panama
Dr. Eduardo Ritter, Panamanian Ambassador to the United Nations for the 11th General Assembly
Mr. Juan Méndez Mérida, Chargé d'Affaires of Panamanian Embassy
Mr. Roy R. Rubottom, Jr., Acting Asst. Secy. for Inter-American Affairs
Mr. Jack D. Neal, Director, Middle American Affairs
Mr. William E. Price, Desk Officer for Panama

1. Foreign Minister Boyd on behalf of President de la Guardia transmitted the cordial best wishes of the President to President Eisenhower and to Mr. Rubottom. He spoke of the Meeting of the Presidents in Panama during July and of the spontaneous ovation accorded President Eisenhower by the Panamanian people and the tremendous impression the President made. Mr. Rubottom thanked Mr. Boyd for the messages conveyed and commented that President Eisenhower had personally told him how much he had enjoyed the meeting at Panama, the hospitality that he had received at the hands of the Panamanians, and that he would like to return.

2. Mr. Boyd stated there were several matters pending between our two Governments which he would like to discuss: implementation of Items 1 and 2 of the Memorandum of Understandings Reached of the Treaty of 1955, and his Government's interest in having appropriate legislation passed by Congress as soon as possible during its next session. He also mentioned Panama's interest in having the funds appropriated for construction of the bridge over the Pacific end of the Canal. Mr. Rubottom explained that an Omnibus Bill[2] was presently being considered by the Bureau of the Budget which contained the legislation for implementing Items 1 and 2 of the Memorandum of Understandings Reached and also that a bill requesting appropriation of the funds to construct the bridge was also in the Bureau of the Budget. He added that both bills are receiving the recommendation and full support of the Department of State. Mr. Boyd said he appreciated this support and would inform President de la Guardia accordingly.

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[1] Source: Department of State, Central Files, 611.19/11–2855. Confidential. Drafted by Price.

[2] Reference is to H.R. 6709, introduced on March 1, 1957.

3. In connection with Item 1 of the Memorandum of Understandings Reached Mr. Boyd said it was his Government's desire to study the wage scale legislation so suggestions could be made prior to enactment. Mr. Rubottom discouraged this by explaining the Omnibus Bill was in the Bureau of the Budget and since so many interested entities were working on the proposed measures it would be practically impossible to accede to his request. Moreover, to interrupt the clearing process at this stage would delay passage of the bill. Mr. Boyd stated he knew of the proposed 5 cents per hour wage increase and wanted to know when it would go into effect. Mr. Price stated that it was the intention of the Panama Canal Company to place the wage increase into effect on December 30, 1956 which would materially cushion the loss of commissary privileges before the date of actual loss and prove of benefit to the Panamanian Government in explaining its own support of the action. Mr. Boyd asked to be informed through our Embassy in Panama prior to the effective date so that both he and President de la Guardia would know exactly what was to take place. Mr. Rubottom agreed to this.

4. Minister Boyd referred to Item 2 of the Memorandum of Understandings Reached concerning the transfer of certain properties which he stated were deteriorating through non-use and vandalism. Mr. Price explained that the Panama Canal Company and the Department of State were currently considering this problem of leasing such properties to the Government of Panama on a nominal fee basis prior to enactment of the Omnibus Bill by Congress but pointed out that due to the temporary nature of such an interim agreement with Panama it was believed the Government of Panama might be reluctant to invest funds to renovate or improve the property; that in view of the time between now and possible enactment by Congress—a period of some 3 to 4 months—it was thought it would hardly be worthwhile to make the temporary arrangement. Mr. Boyd agreed that this was so.

5. Mr. Boyd next mentioned conference freight rate differentials as they adversely affected the economy of Panama. He asked Mr. Rubottom if it would be possible for the Department of State to intervene on behalf of Panama in order to obtain relief for payment of these higher freight rates. Mr. Rubottom explained this was a matter in which he felt the Department of State could not properly interest itself though he sympathized with Panama's predicament and lamented the adverse effect it had on Panama's economy. He suggested, however, that the Panamanian Government itself deal directly with the maritime companies who were members of the particular freight rate conference which seemingly controlled Pana-

ma's ocean freight rates to determine what could be done. Mr. Boyd seemed to accept this suggestion.

Mr. Boyd noted that the S/S *Panama,* a freight and passenger vessel of the Panama Canal Company, was being offered for sale and wondered if it would be possible for his Government to purchase the vessel, probably having in mind the thought that having ownership of such a vessel the Panamanian Government would be in a bargaining position in entering into discussions with the members of the conference in its effort to lower the freight rates. To this suggestion Mr. Price pointed out that he had understood from the Washington representative of the Panama Canal Company that the value of the vessel was somewhat in excess of $3 million and further that ownership could be transferred only to American interests, but he explained that these latter two points could be investigated to determine the validity of the statement. At the mention of the vessel's value Mr. Boyd threw up his hands and indicated that such a purchase price was far beyond the capacity of the Panamanian Government but jokingly suggested that the Government be allowed to purchase it on credit. No reply was made to this latter suggestion.

6. Mr. Boyd then spoke of the problem of nautical inspectors. He explained the pressure for nautical inspectors came from a very small group—some 50 or more members of the Panamanian Seamen's Union who have been very vocal in every session of the National Assembly for the past three years or so. He stated he felt that if both Governments cooperated and acted in good faith there should be no impediment to an agreement. He suggested a modus operandi which would grant the Panamanian Government permission to station nautical inspectors in the Canal Zone without prejudice to the rights and interests of the United States Government and seemed most anxious to reach an agreement. Mr. Rubottom informed him the Department of State, in attempting to solve the problem, had to consider the jurisdictional aspect of the United States Government in the Canal Zone and due protection must be given that right. He added, however, that the problem was presently under study in the Department of State and that he believed we were close to resolving the points at issue. He stated that when the basic terms for agreement were developed they would be sent through our Embassy in Panama for transmission to him.

7. Mr. Rubottom expressed a hope for a more cooperative attitude on the part of the Panamanian Government under the administration of President de la Guardia and Mr. Boyd as Foreign Minister in dealing with problems that arise from time to time between our two Governments and resolving them in an atmosphere of friendship and good faith. He spoke of the two-way nature of such relations and that the United States Government for its part

would always consider all problems that arise in its traditional spirit of friendship and good will toward Panama. Mr. Boyd thanked Mr. Rubottom for this observation and stated the United States Government could always count on the Government of Panama as being a staunch friend.

8. Mr. Rubottom then stated this Government's continued need to obtain two sites in Panama for installation of radar equipment and pointed out that over a year has passed since this Government originally made the request citing the second paragraph of Article II of the 1936 Treaty as being applicable as a basis for the request. Mr. Boyd stated he was sorry about the delay and the attitude his Government had taken, which he blamed on the Foreign Relations Council, in considering the request but at this point felt that since his Government could not back down from the stand taken in which it rejected our claim that the provisions of the second paragraph of Article II of the Treaty of 1936 applied; that agreement could be reached very quickly on the basis of negotiation of a new treaty which would have to be submitted to the National Assembly of Panama for ratification. He further stated that in accordance with Panamanian law that when transfer of land takes place under such circumstances that the National Assembly must consider the treaty for ratification.

9. Several times during the course of the visit, Mr. Boyd made the remark he wanted to take something back to Panama or he must show something to his Government. Mr. Rubottom assured him he was sympathetic to his wishes and understood his position but explained that the democratic process for handling pending legislation could neither be hurried nor controlled. The problems pending in the Department for decision, however, could and would be expedited.

10. The meeting terminated at this point. Upon departure from Mr. Rubottom's office Mr. Boyd handed Mr. Price a memorandum listing the problems pending between our two countries.[3]

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[3] Not found in Department of State files.

169. Despatch From the Ambassador in Panama (Harrington) to the Department of State[1]

No. 317 *Panama City, February 14, 1957.*

REFERENCE

Letter from the Counselor of the Department of State dated December 20, 1956[2]

SUBJECT

U.S. Bases and Operating Facilities, Panama

The following analysis and assessment of the situation in Panama has been prepared by the Embassy and embodies certain suggestions and changes proposed by the Governor of the Canal Zone and Headquarters, Caribbean Command. It has been concurred in generally by both the Governor and Caribbean Command.

1. Local acceptance of and feeling of participation in U.S. operations.

a. Since its independence in 1903, Panama has generally followed a policy of cooperation with the United States and support of U.S. collective security policies. The matter has, of course, involved principally our operations in the defense of the Panama Canal.

In Article II of the 1903 Treaty, Panama granted the United States in perpetuity the use, occupation and control of the Canal Zone and any other lands and waters that might be necessary for canal purposes, with specific mention of the protection of the canal as one of the functions involved. Our right to maintain armed forces and military installations in the Canal Zone under this Article has never been questioned, and these operations have always been fully accepted by Panama. In subsequent disagreements with Panama about the scope of our jurisdiction in the Canal Zone, Panama has frequently reiterated that the defense of the Canal is one of the functions which the United States may properly carry on in the Canal Zone under the terms of the 1903 Treaty.

The inhabitants of this area have, ever since the days of the Spanish settlers, considered its principal asset to be its geographical location on this isthmus, and its economy is largely based upon the exploitation of this geographical position. The presence of military forces in the Zone is an important source of profit to the economy of Panama and one which Panama is glad not only to retain but to expand.

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[1] Source: Department of State, Central Files, 711.56319/2–1457. Secret; Limited Distribution; No Distribution Outside Department.

[2] In this letter, Douglas MacArthur II informed the Embassy that, pursuant to an upcoming study by Frank C. Nash of U.S. overseas bases and operating facilities, it would be expected to prepare a report on U.S. bases and operating facilities in Panama. A questionnaire and proposed outline were enclosed, which formed the basis for despatch 317. (*Ibid.*, 711.56319/12–2056) Nash formerly served as Assistant Secretary of Defense for International Security Affairs.

Panama also depends almost entirely upon the U.S. forces in the Canal Zone for its defense, and has no regular armed forces of its own aside from the Guardia Nacional police force. This effects a very substantial saving in the cost of defense, and, although the existence of Panamanian armed forces would undoubtedly be welcome in support of the national pride, there is no real pressure for the formation of such forces.

In the field of international relations, Panama has on the whole given valuable support to our foreign policy objectives. In the United Nations, Panama has usually gone along with the West in opposition to the communist bloc, and in connection with East-West trade has been cooperative in following the lead of the United States. This cooperation has been especially valuable in the field of shipping, where the Panamanian Government, by Decree No. 631 of August 18, 1951, has forbidden ships of the large Panamanian flag merchant fleet to enter ports of Communist China and other communist ports in Asia.

During the Second World War, the United States developed a plan of defense entailing the occupation of many points in Panamanian territory for airfields, gun emplacements, searchlight locations and the like. This plan was submitted to the Panamanian Government and was accepted in a formal agreement signed on May 18, 1942, which made available to the United States the needed defense sites until "one year after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect."[3] By a special informal arrangement, U.S. troops had already been in occupation of many of the bases for more than a year when the agreement was signed. Although this agreement, at the time of its termination, led to an acrimonious dispute between Panama and the United States, as will be discussed below, the granting of the bases contributed greatly to the strengthening of the defenses of the Canal and materially assisted the U.S. war effort. Panama also declared war on the Axis Powers with all possible speed and took immediate action to round up and immobilize Axis nationals who might become involved in sabotage of the Canal. In discussing this matter, Senator Mansfield[4] said in his sub-committee report, "The value of this help in support of the joint war effort can hardly be exaggerated."

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[3] For text, see 57 Stat. 1232.

[4] Michael J. Mansfield (D.–Mont.).

In discussing above the favorable attitude of Panama toward U.S. armed forces, reference has deliberately been limited to troops and installations located within the Canal Zone. While Panama has never been inclined to question our military activities in the Zone, the question of our troops and bases outside the Zone has evoked an entirely different attitude, one of bitter opposition except in cases of the most extreme emergency.

By Article II of the 1903 Treaty, Panama granted the United States, in addition to the Canal Zone proper, "any other lands and waters outside of the Zone above described which may be necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said Canal or of any auxiliary canals or other works necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said enterprise." This concession came to be considered by the Panamanians as particularly onerous, and in Article II of the 1936 Treaty the United States renounced the right to take lands and waters in addition to those already held under the 1903 Treaty. A provision was added, however, in the second paragraph of Article II of the 1936 Treaty (copy attached), by which it was agreed that in the event of an "unforeseen contingency", which required the use of additional lands or waters, the two governments would agree on such measures as might be necessary "in order to insure the maintenance, sanitation, efficient operation and effective protection of the Canal".

It has become apparent since the 1936 Treaty was signed that this provision is interpreted by Panama in a way quite different from what we understand the words to mean. It is significant that although the preamble to the 1942 Bases Agreement mentioned "the provisions of the General Treaty of Friendship and Cooperation, concluded March 2, 1936, to take all measures required for the effective protection of the Panama Canal", no specific reference was made to Article II of that Treaty as the basis of the agreement. We understand that this omission stemmed from the refusal of the Panamanians to recognize the conditions prevailing in 1942 as constituting an "unforeseen contingency" as provided for in Article II of the 1936 Treaty.

The attitude of the Panamanian Government was further demonstrated in the dispute over the date of termination of the 1942 Bases Agreement and in the negotiations in 1947 by which we sought a more permanent arrangement. The question arose after the cessation of hostilities as to the meaning of the provision of the 1942 Agreement regarding the time of expiration of the leasing of the bases outside the Canal Zone; whether, as the Panamanians contended, the agreement should expire one year after Japan surrendered, or whether the United States could remain on any of the 134 wartime bases until a year after the final peace treaty should be signed. An Agreement was eventually signed on December 10, 1947, which would have granted the United States the right to remain in 13 of the wartime bases for five years and in the important Rio Hato air base for ten years with an option of renewal for an additional ten years. Unfortunately, popular opposition influenced the National Assembly of Panama unanimously to reject this proposed agreement on December 22, 1947, on the ground that "it was not inspired by the principle of juridical equality of the contracting states and does not follow the principles of international law and the spirit of the inter-American defense system".

In negotiating the 1955 Treaty, a lease of the Rio Hato area for 15 years as a training and maneuver area was included, and this valuable site is now available to our military forces. The agreement specifically states that Panamanian sovereignty is not affected, and as the agreement as a whole is highly favorable to Panama there was little opposition to it in the Assembly.

During the period since November, 1955, the Embassy has been endeavoring to obtain from Panama, under the terms of Article II of the 1936 Treaty, the use of two hilltops in Panama near the borders of the Canal Zone as sites for radar installations to be used in connection with Nike equipment for the protection of the Canal. In this case, the Panamanian Government has again demonstrated its refusal to accept a reasonable interpretation of Article II of the 1936 Treaty. In response to our request, in which it was pointed out that the development of long-range, high-speed aircraft and guided missiles is an "unforeseen contingency" which clearly requires the use of sites at some distance from the Canal, the Panamanian Foreign Office replied that Article II of the 1936 Treaty was intended to provide for "only an extreme situation caused by a geographical phenomenon such as an earthquake or something similar" and that Panama could never agree that "an encumbrance could continue to hang over its territorial integrity". There appears to be no likelihood that Panama will change this basic interpretation of Article II of the 1936 Treaty.

b. As it was pointed out above, Panama does not question our treaty right to maintain defense forces and installations in the Canal Zone, and these are recognized as sources of economic and security benefit to Panama. The reaction to a reduction in our forces in the Zone would undoubtedly be unfavorable. Such a reaction has been demonstrated in the past when it was occasionally necessary to declare Panama off limits for troops. On the other hand, any curtailment of our operations outside the Zone would no doubt be looked upon with approval by Panama, but since these operations have now been reduced to very small proportions, there is very little pressure for their further reduction. Our present holdings outside the Zone, such as the Cape Mala lighthouse, radar station on Taboga island, and the Rio Hato training and maneuver area are generally accepted by the Panamanians.

c. While the Panamanians and their Government recognize that an atomic attack on the Canal would probably destroy Panama City and Colon, their two principal cities, this recognition is not real and vital enough to influence seriously their attitude toward the extension of our activities outside the Zone. Although in our negotiations regarding Nike radar sites we have repeatedly pointed out this danger and the great security advantages that would accrue to Panama from these installations, we have not observed any appreciable change in their adamant opposition to the granting of the sites under the 1936 Treaty.

2. Points of friction with local population.

a. With such a large number of military personnel passing freely across the border from the Canal Zone into Panama and depending upon facilities in Panama for the types of amusement not offered by the Canal Zone, it is inevitable that there be frequent violations of Panamanian law and disciplinary action involved. In general these are limited to traffic offenses, drunkenness, brawling, "disrespect for Panamanian police officers" and the like. They are usually accepted as normal, and their impact upon our relations with Panama is not disturbing. Occasionally, however, a case arises which involves the rape, serious injury or even death of a Panamanian, and such cases are generally played up by the local press and arouse a strong emotional reaction. They are not frequent, however, and their total impact is not sufficient to reduce the welcome that American troops with their ready cash enjoy in the terminal cities.

The impact of the presence of our armed forces in the Canal Zone is limited by the fact that they reside in a separate jurisdiction, where they are housed, fed and generally provided for, and are thereby insulated to a great extent from direct contact with Panamanians and their economy. Their presence in this area is not ordinarily separated in the Panamanian mind from the more general question of the presence of the United States in jurisdictional control of the Canal Zone, and Panamanian efforts are directed principally toward gaining more material benefits from our presence in the Zone. The standard of living of most of our personnel in the Zone is well below that of the Panamanian elite who control this country, so there is little incentive to exploit this as an emotional issue.

b. The United States has maintained armed forces in the Canal Zone since 1903, and the local economy is therefore completely adjusted to their presence. Most of their housing and other requirements are supplied directly in the Canal Zone, quite independently of the Panamanian economy or through long-established channels to which the economy is fully adjusted. The dislocations usually associated with the sudden appearance of large numbers of our troops in foreign countries are therefore lacking in this case.

The principal complaints of an economic nature advanced by Panama concern the Panamanian desire to gain additional economic benefits from the Canal; a larger share of the Canal Zone market and higher wages for Panamanian employees of the United States Government. Several such matters were dealt with in the 1955 Treaty and are now awaiting legislation by the United States Congress for their implementation. They involve not only the armed forces but the Panama Canal Company and other civilian agencies as well.

c. Occupation of agricultural land by United States armed forces is a very minor problem in Panama. At Rio Hato, some farmers were displaced, but this had no serious repercussions and will soon be forgotten.

d. The question of criminal juridiction over members of the U.S. armed forces while they are in the Republic of Panama involves principally the types of case mentioned in a. above. Under the terms of an informal arrangement between the U.S. Provost Marshall and the Panamanian Commandant of the National Police, arrived at in 1942, provision is made for joint patrols of Panamanian guardsmen and U.S. military police to patrol certain areas frequented by our troops, for the delivery of arrested personnel to the U.S. Provost Marshall under certain conditions, for the presence of U.S. observers at trials and for various other arrangements intended to minimize the friction involved in such matters and to provide maximum protection to U.S. personnel. Although this arrangement has provided the basis for some cooperation between the two countries with respect to criminal jurisdiction, the military authorities in the Zone are not entirely satisfied with the results and have proposed that a new official agreement be negotiated with Panama on this subject. The matter is under consideration by the Department of Defense, and we assume that instructions will eventually be received to negotiate the desired agreement. The willingness of Panama to negotiate a formal agreement in this case is open to doubt because of the fact that in our administration of the Canal Zone our police and judicial authorities freely arrest, try and imprison or impose other punishment upon Panamanian citizens who commit crimes or misdemeanors in the Canal Zone, without any reference to the Panamanian Government.

Difficulties frequently arise in connection with the trial and conviction of U.S. military personnel by Panamanian courts, under conditions which do not provide all the legal safeguards to which Americans are usually accustomed. Reports on all such cases are submitted to the Department of Defense and to the Embassy, and any necessary official action is taken. Cases of this kind have not been the cause of serious trouble between the two governments, and they are usually of minor importance.

In view of the existence of a separate jurisdiction in the Canal Zone, disputes involving the question of civil jurisdiction over United States armed forces in Panama are neither serious nor frequent.

e. There are no other important local issues involving the armed forces which cause serious difficulties in our relations with Panama.

3. Impact on political situation.

a. While the United States retains control of the Panama Canal, which is the principal economic asset of Panama, our presence will inevitably be a matter of the utmost political importance in this country. It is exploited in varying degrees for political purposes by most of the local politicians, and the argument that Panama is not receiving a just share of the benefits of the Canal has popular appeal in Panama. There appears to be no doubt that the ultimate objective of Panama is to obtain joint or complete control and ownership of the Canal, although there is no expectation on their part of attaining this objective in the foreseeable future. The immediate and continuing objective is the gaining of increased annuities, once stated as a minimum of $5,000,000, preferably based on a percentage of tolls.

At times in the past, notably in the first administration of Dr. Arnulfo Arias (1940–1941), highly nationalistic policies, designed to take advantage of the latent chauvinism of the people, complicated our relations with Panama. Likewise, in 1947 when the question of continuing the agreement pertaining to the granting of certain bases to the United States was under consideration, there is no doubt that student demonstrations encouraged by communist elements were an important factor in the rejection of the proposed agreement by the National Assembly.

Since that time, the Panamanian administrations in power have followed more moderate policies in relation to the United States and more firmness in dealing with communist elements within the country. This has reduced the political exploitation of anti-Americanism to a point where it seems unlikely to lead to serious violence or irresistible political pressure on the Government.

b. Certainly for the present, the Panamanian Government favors the continued operation and defense of the Panama Canal by the United States. As far as our operations within the Canal Zone are concerned, there is no pressure for the reduction of our military activities, and the problems involved are not of such a serious nature as to suggest any such possibility. In connection with our defense requirements outside the Zone, however, we are faced with the firm refusal of the Panamanian Government to grant the necessary additional land under Article II of the 1936 Treaty, which we believe provides for just the kind of a situation that now exists. We nevertheless hope that it will be possible to overcome this difficulty by a new approach, which is suggested in a later section of this report.

This Panamanian attitude can probably be explained by one or both of the following conditions: (1) Panama does not wish to be under the continuing general requirement of furnishing additional land for defense purposes without a more definite control over the determination of the need for such land and over its administration. (2) Panama wishes to retain the bargaining power incidental to the granting of additional defense sites as the need for them arises.

4. *Issues between United States and local government not arising under (2).*

There are no other important issues of a military nature that have not been discussed in earlier sections of this report.

5. *General estimate of future trends of local sentiment and government attitude toward maintenance of United States operations.*

We can foresee in the near future no probable change in the attitude of the Panamanian Government or people toward the maintenance of our defense operations in this area. The long-range Panamanian objective of undermining our sole control of the Canal and substituting some form of joint operation from which they would obtain greater benefits will no doubt continue to be pursued. Our position is so strong, however, that this attitude is not a serious threat under present conditions.

6. *Particular measures which have been or could be of assistance in allaying local resentments and governmental objections.*

No action on our part short of the abandonment of our position in complete control of the Canal would fully remove the Panamanian pressure for further concessions. We have, however, through a long series of treaty revisions since 1903, notably the 1936 and 1955 treaties, given up many of the special privileges granted to us in the 1903 Treaty. In this process, we have returned or agreed to return to Panama a number of pieces of land not actually needed for canal purposes, we have enlarged the opportunities of Panama to obtain economic benefits from the Canal, we have greatly increased our annuity payments to Panama, and in numerous other ways have maintained an enlightened attitude toward Panama with the objective of keeping our relations with this country as a showcase of our relations with Latin America in general. The concessions granted to

Panama in these treaties have, however, limited our freedom of action to such an extent that it would not be possible to go much further in this direction without adversely affecting our ability to operate and defend the Canal efficiently.

7. Particular measures to heighten sense of participation in an identification with defense efforts of which United States operations are a part.

As pointed out above, the most serious defense problem with which we are faced in our relations with Panama is the question of sites outside the Canal Zone for radar and other installations made necessary by the danger of unexpected attack by modern weapons. Although Article II of the 1936 Treaty should provide for such sites, the interpretation placed on this Article by the Panamanian Government renders it useless for this purpose, and there seems to be no possibility that the Panamanian attitude can be changed. Although Panama has, in the course of negotiations for Nike radar sites, indicated a willingness to negotiate a new agreement, entirely independent of the 1936 Treaty, to cover the granting of these sites, we have not followed up this offer because of our insistence that the 1936 Treaty is sufficient and our fear that the cost of this and future agreements, in terms of concessions to Panama, would be too great.

The seriousness of the problem is such, however, that the United States may be forced to abandon this position. We in the Embassy have reluctantly come to the conclusion that if we are to obtain the necessary sites at all we must be prepared to negotiate without reference to the 1936 Treaty. Therefore, if the need for the sites is deemed to be of vital military importance, we recommend that negotiations be undertaken for a new agreement to deal with this question alone. We propose that an effort be made to induce the Panamanian Government to grant the two sites in question on terms similar to those governing the lease of the Rio Hato area in the 1955 Treaty, without specific reference to the 1936 Treaty.

We believe that the chances of a successful and satisfactory outcome would be increased if we were in a position to present the matter as a joint venture for the protection of both the Canal and nearby areas in Panama and if we were able to make various other references to the joint nature of the undertaking and to the flying of both flags over the sites concerned. It should be kept in mind, however, that political expediency at the time of any negotiations could well cause the Panamanians to make unacceptable demands upon us in this respect. It is not recommended that actual control of the sites and equipment be shared with the Panamanians.

In the meantime, every effort should be made to induce Congress to pass the necessary legislation and provide the required appropriations to carry out the commitments made by the United

States in the 1955 Treaty. This would not only provide a favorable atmosphere for the negotiations but would also remove important causes of dissatisfaction that might be exploited by unfriendly elements in opposing the proposed agreement.

Although beyond the scope of the present study, we wish to point out that if, in connection with the consideration of the problem of enlarging the facilities of the Panama Canal, the possibility of building an additional canal in Nicaragua or elsewhere were considered as a possible alternative, the latter consideration would have a most beneficial effect upon the attitude of Panama toward the defense of the Panama Canal, at least until a definite commitment had been made. If the Panamanian Government were led to believe that its monopoly position were threatened or that the expenditure of vast sums of money for enlargement of the present Canal depended to some extent on Panamanian willingness to cooperate fully in defending it, Panama might be prepared, during that period of uncertainty, to make considerable concessions as an added inducement.[5]

Julian F. Harrington

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[5] In despatch 344 from Panama City, March 8, the Embassy pointed out that as a result of recent consultations in Washington between Ambassador Harrington and Department officials and in Panama City between Embassy and Caribbean Command officials there was general agreement that Panama would not agree to grant the desired radar sites to the United States under the terms of Article II of the 1936 Treaty. Accordingly, the Embassy proposed that the negotiations be "wound up" with a note from the Embassy to the Panamanian Foreign Office, stating for the record the U.S. position and reserving this position for any future negotiations under Article II. (Department of State, Central Files, 611.1913/3–857)

170. Memorandum From the Assistant Secretary of State for Policy Planning (Bowie) and the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, April 3, 1957.

SUBJECT

Nicaraguan Canal

Problem: Should this Government now consider seriously the construction of a trans-oceanic canal across Nicaragua?

1. Economic

(a) The capacity of the present lock canal in Panama is much greater than the demands now being placed upon it. It handled 46 million long tons in 1956. Without major improvements the Canal is considered capable of handling up to 120 million tons per year.

(b) The Panama Canal can accommodate all existing merchant ships, except the largest passenger liners, and tankers in excess of 60,000 tons. Only ten or twelve ships, in being or building, are too large for the Panama locks; and these vessels would not be used on routes requiring Panama transit anyway.

(c) If world trade should continue to expand in accord with recent trends, the capacity of the present Panama Canal may be overtaken in the mid–1970's. A report by the Panama Canal Company on this question is scheduled to be issued within a month.

(d) It may thus be necessary at an early date to decide as between major improvements in the Panama Canal and the construction of a trans-oceanic waterway elsewhere in Central America. It seems likely that the choice would lie between the Panama waterway and a canal across Nicaragua.

(e) Present construction cost estimates are: $6 billion for a lock canal across Nicaragua; $5 billion for the conversion of the Panama Canal to a sea-level waterway. These figures do not include any amounts for concessionary payments.

(f) Although a Nicaraguan canal would be a shorter route between US Atlantic and Pacific coasts than the Panama Isthmus, the resulting savings would not in themselves be sufficient to justify construction of a canal across Nicaragua. Intercoastal traffic, in fact, is less than 20 percent of total canal traffic.

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[1] Source: Department of State, ARA Files: Lot 60 D 667, Panama 1957—Nicaraguan Canal. Confidential. ISA, the Office of the Legal Adviser, and the Bureau of Economic Affairs concurred in this memorandum.

2. Strategic

(a) The locks of the Panama Canal cannot accommodate the largest modern aircraft carriers of the Forrestal class or those smaller carriers having canted decks. Under existing strategic concepts, however, this is not viewed as a serious limitation so far as our ability to conduct general war is concerned. It is unlikely, on the other hand, that the Panama Canal would be a target for enemy military actions in situations short of general war.

(b) The lock canal at Panama is vulnerable to lengthy interruption in the event of successful enemy sabotage or overt military action. A Nicaraguan canal, however, would also have to be of the lock type and would therefore be equally susceptible to interruption.

(c) Because of the vulnerability of a lock canal, a preferred solution on the part of Defense would be a sea-level waterway at Panama. Defense, however, would give a lower priority to canal improvement than to other elements in US security programs.

3. Political

(a) Panamanian agitation over the canal is not now in large volume. Nevertheless, we must expect that future Panamanian administrations will press for further financial concessions and for participation in the management and operation of the canal.

(b) If it should become necessary to undertake major improvements in the Panamanian waterway, Panama undoubtedly would take the occasion to seek alterations of our treaty rights.

(c) Nicaragua has indicated its readiness to negotiate a canal grant under the existing Bryan–Chamarro Treaty.

Discussion:

1. The foregoing summation of facts suggests that a Nicaraguan canal would not be justified now on economic or strategic grounds. It does not appear that political considerations are sufficient to outweigh the economic and strategic factors.

2. Despite continuing agitation, Panamanian attitudes do not now seriously threaten US control of the Panama Canal. This agitation will no doubt increase, but our diplomatic capabilities for maintaining the essentials of a US position in the Canal Zone are still considerable. In the last analysis, moreover, we probably can hold physical control of the Canal Zone if we consider it worthwhile to incur the political costs of doing so.

3. Any attempt to obtain concessionary rights in Nicaragua comparable with those we have in Panama would give rise to a great volume of anti-American sentiment in Central and South America

and elsewhere. Even moderate opinion in Latin America would be strongly opposed to a canal grant of this kind by Nicaragua.

4. It is likely, in any case, that Nicaragua would ask for concessions going beyond the Panama model. Nor could we deal initially with Nicaragua alone, since under the Senate reservation to the Bryan–Chamarro Treaty, it was recited that nothing in the treaty was intended to affect the rights of Costa Rica, El Salvador, and Honduras. In general, the probability is great that in future canal negotiations, whether with Panama or with other nations, we shall be under heavy pressure to agree to share both control and earnings with local governments.

5. Unless we are prepared to give serious consideration to a Nicaraguan canal, our interests would not be served by any attempt to use the threat of a Nicaraguan canal to discourage Panama from attacking our treaty rights in the Canal Zone. First, by falsely exciting political emotions, as well as popular expectations in Nicaragua, we might damage the political standing of a friendly government; Embassy Managua feels strongly that we should not take this risk. Second, discussion of a Nicaraguan canal would inevitably stir up anti-American sentiment in Central and South America. Third, it is by no means certain that the Panamanian Government would be impressed, since it probably is well acquainted with the high cost and other adverse features of a Nicaraguan canal.

6. The Department, on February 13, 1957, commented on a bill introduced into the House to create an *Interoceanic Canals Commission* to conduct a comprehensive investigation of improvements in the Panama Canal and of alternative canal possibilities.[2] Our position was that such an investigation was not needed in view of the several studies and surveys made in the recent past and the large amount of data thus available. The Department of the Army is currently commenting in the same vein on this bill and on an identical Senate bill.

Conclusions:

1. We should not give serious consideration to a Nicaraguan canal at this time.

2. If the forthcoming study by the Panama Canal Company indicates the need for major alterations in the Panama Canal to handle traffic requirements in the relatively near future, it may be desirable to institute a detailed interdepartmental review of the canal issue in all its aspects.

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[2] Reference is to H.R. 3258, introduced in the House of Representatives by Representative Clark W. Thompson (D.–Tex.) on January 17.

171. Memorandum of a Conversation, Panama City, June 27, 1957[1]

PARTICIPANTS

H.E. Lic. Aquilino E. Boyd, Minister of Foreign Relations of the Republic of Panama

The Honorable R.R. Rubottom, Jr., Assistant Secretary of State for Inter-American Affairs

The Honorable Julian F. Harrington, Ambassador of the United States of America to Panama

I began the conversation by expressing my pleasure at being in Panama[2] again and by saying that the Department had been following with the greatest of interest the efforts of the Panamanian Government during the first months of the administration of President de la Guardia. I told the Foreign Minister that I personally had been giving much time and attention to the three pieces of legislation of interest to Panama: (1) the appropriation for the bridge, (2) the wage bill and (3) the bill providing for the return of certain lands. I went into some detail to describe the present posture of the bridge money bill, saying that I was moderately optimistic that it would be passed, although I could not hold out any certainty in view of the economy minded group of congressmen who were holding a tight rein on all expenditures.

I inquired of the Foreign Minister whether President de la Guardia had given attention to the recommendations of the Committee of Presidential Representatives (CPR), referring to the statement made by President Eisenhower that the U.S. intended to support the recommendations to the fullest extent possible. The Foreign Minister said that the President had already received the recommendations and was studying them.

I mentioned that the U.S. was preparing carefully for the Buenos Aires economic conference[3] and hoped to send a delegation headed by a Cabinet member, but that this plan would not work unless the conference could be fitted into a period of ten days to two weeks at the most. The Minister agreed with the latter point and said that Panama was planning to send the Minister of Finance and Treasury, Mr. Ruben Carles. I stated that the Embassy here would soon receive instructions from the Department based on which it would be consulting with the Panamanian Government.

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[1] Source: Department of State, ARA Files: Lot 60 D 667, Panama 1957—Relations. Secret. Drafted by Rubottom.

[2] Rubottom was in Panama June 26–28 as part of a tour of six Central American nations. Additional documentation on his trip is *ibid.*, Central File 110.15–RU.

[3] The Economic Conference of the Organization of American States met at Buenos Aires, August 15–September 4; see vol. VI, Documents 135 ff.

The Foreign Minister was quite interested in the status of the pending legislation before the U.S. Congress but didn't dwell on this subject long, except to say that, while there were one or two details in the wage and lands bills which were not entirely to Panama's liking, the Government had studiously refrained from criticizing these items in order not to damage their position in the Congress.

I pointed out that the United States was still concerned that the Communists might take the present moment, while the disarmament discussions were being held in London,[4] to redouble their efforts to penetrate and subvert Latin America, stressing that we should redouble our vigilance. He agreed that the communist threat was as great as ever and alluded somewhat vaguely to one or two problems which had developed in Panama as a result of their efforts to provide all of the democratic freedoms to the people. He didn't think that these problems were serious.

The Foreign Minister turned to the present discussions over nautical inspectors, complimented Ambassador Harrington for his efforts to find a solution to the problem, and then explained Panama's position that, while accepting our note setting forth the terms under which inspectors could board vessels in the Canal,[5] they would have to state that this modus operandi did not alter their previous position in respect to their interpretation of the treaty, etc. I replied to the Minister along this line: I have given this matter personal attention in the Department and felt that the United States would not be able to change its position that the Panamanian reply be limited to a simple acceptance of the terms and conditions in our note: the United States had acceded to Panama's request and it hardly seemed practical for Panama now to insist on a matter of form which might impede their obtaining the substance wanted; the notes referred simply to a modus operandi and should not refer to the treaty. The Foreign Minister firmly supported Panama's position, saying that they were defending a detail which for them was an absolute essential. I told the Foreign Minister that I wanted to be perfectly frank and that I could hold out no hope to him that their position would be accepted. The Minister seemed noticeably let down by this news.

The Minister next alluded to Panama's candidacy for the Security Council vacancy for Latin America. He said that the Ambassador of Uruguay[6] just yesterday had told him that Uruguay was now in a position to consider supporting Panama for the Security Council in return for Panama's support of a Uruguayan seat on UNECOSOC because Uruguay believed that Argentina might withdraw from the Security Council race. The Foreign Minister was greatly encouraged by this news apparently. He said that Panama already had eight votes, Uruguay's would make the ninth, and they felt sure of Peru's and Colombia's which would give them the eleven vote majority needed. He urged the United States to help hold Argentina in line so as to avoid that country's getting outside of the caucus in the event it does not get a majority of the votes. I was non-committal and referred only to the traditional United States position not to reach a decision until the Latin American caucus had done so.

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[4] Reference is to meetings of the subcommittee of the U.N. Disarmament Commission in London beginning March 19.

[5] The exchange of notes between the United States and Panama regarding Panamanian nautical inspectors being permitted to board ships of Panamanian registry while in Canal Zone waters were transmitted in despatch 63 from Panama City, August 6. (Department of State, Central Files, 611.19/8–657)

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[6] Julio A. Lacarte.

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172. Memorandum From the Acting Secretary of State to the President[1]

Washington, July 29, 1957.

SUBJECT

Treaty Legislation—Panama

The three pieces of treaty legislation introduced by the Administration to implement certain provisions of the 1955 Treaty with Panama are not moving through the Congress as they should. There is even evidence that Congress might adjourn before enacting this legislation. The Senate and House committees considering the legislation appear apathetic and somewhat indifferent to its passage.

High officials of the Panamanian Government are seriously concerned that the legislation will not be enacted this session and are unable to understand the reason for Congress' attitude in not fulfilling United States treaty commitments to Panama. This is especially true in view of your statement to President Arias regarding the sanctity of treaties.[2]

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[1] Source: Eisenhower Library, Herter Papers, Chronological File. Drafted by Price on July 25. Rubottom forwarded this memorandum to Herter on July 25 under cover of a note which explained the background of the Panama Canal Treaty enabling legislation and urged the Acting Secretary to approve the memorandum to the President. Herter approved it without change. (Department of State, ARA Files: Lot 60 D 667, Panama 1957—Implementation of Treaty)

The United States is morally committed to enacting the legislation necessary to implement the Treaty. Failure of enactment of this treaty legislation this session will seriously impair our relations with Panama as such failure is bound to be construed as evidence of our bad faith and lack of concern for Panamanian interests.

I recommend that you request the support of key Congressmen to ensure enactment of this legislation during this session of the Congress.

There is attached a report containing pertinent comments and information regarding this legislation.

Christian A. Herter

[Enclosure]

TREATY LEGISLATION—PANAMA

The three pieces of pending legislation are as follows: S. 1850 and H.R. 6708 (uniform wage scale bills) are presently in the Senate and House Post Office and Civil Service Committees. Hearings have been completed by the Senate Committee. The House Committee has not completed its hearings. S. 1730 and H.R. 6709 (land transfer bills) are on the calendars of the Senate and House. House Document 198 includes the request for appropriation of $1 million for initial engineering studies and plans for construction of a bridge at Balboa. The Document is before the House Appropriations Committee.

President de la Guardia has indicated he will soon summon our Ambassador to Panama to the Presidential Palace to discuss the matter. It is known that he intends to refer to a conversation between the President and President Arias, then President of Panama, regarding United States–Panama relations, made in President de la Guardia's presence during the President's visit to Panama in July 1956.

While attending the Conference of Presidents of the American Republics in Panama in July 1956, the President signed into law the enabling legislation which authorized construction of a bridge at Balboa. At that time the President emphasized his personal interest in that project which created much favorable comment from the Panamanian Government and people.

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[2] See Document 139.

Officers of State, Army, the Panama Canal Company and the Canal Zone Government have expended considerable effort in explaining the importance of this legislation, as it concerns United States relations with Panama, to members of the Congress and urging its enactment.

Positive action must be taken by the Administration with the Congress before its adjournment to ensure enactment of the three pieces of treaty legislation.

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173. Telegram From the Ambassador in Panama (Harrington) to the Department of State[1]

Panama City, August 7, 1957—4 p.m.

97. I called on President De La Guardia today at his request. He expressed to me his appreciation of efforts made by State Department and action taken by the Congress furthering enactment of pending treaty legislation. He expressed particular concern over single wage bill which when passed will be of benefit to Panamanian workers in the Zone. As expected he referred to interest in fulfillment of treaty commitment expressed by President Eisenhower during his visit to Panama last year.

I informed President of Department's latest efforts to seek approval of legislation as described in Price letter of July 26.[2] I assured him of Department's continuing efforts to encourage Congressional approval. He asked me to urge consideration of single wage legislation in the House and again expressed appreciation of accomplishments to date.

Harrington

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[1] Source: Department of State, Central Files, 611.19/8–757. Official Use Only.

[2] Not found in Department of State files.

174. Memorandum From the Secretary of State to the President[1]

Washington, August 27, 1957.

SUBJECT

Treaty Legislation Regarding Panama

Two of the three pieces of legislation which the Administration introduced into Congress to implement certain provisions of the 1955 Treaty with Panama have been passed, namely: S. 1730 and H.R. 6709, as amended, authorizing the conveyance of various lands and improvements to Panama; and a supplemental appropriations bill for Fiscal Year 1958 (H.R. 9131), as amended, authorizing $750,000 for work preliminary to the construction of a high-level bridge over the Panama Canal at Balboa, Canal Zone.

Congressional action on the bills has already received publicity in Panama. The Department attaches considerable importance to this legislation, as it is closely associated with our attempt to maintain and further good relations with Panama. I recommend, therefore, that you agree to release a statement to the press at the time of signing the bills. The news of final enactment into law, plus the evidence of your personal interest in the legislation, would make a favorable impression on the Government and people of Panama. A statement by you would also be a manifestation of support for President de la Guardia at a time when it is politically important to him. In addition, you will recall, you have already shown a personal interest in the legislation by signing the enabling act for construction of the bridge at Balboa while attending the conference of the Presidents of the American Republics in Panama in July 1956.

If you accept this recommendation, there is enclosed for your consideration a suggested statement for release to the press.[2]

John Foster Dulles

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[1] Source: Department of State, Central Files, 611.1913/8–3057. Confidential. Drafted by Price on August 23.

[2] Eisenhower approved this recommendation and released the proposed statement without change on August 30. For text of the White House press release, see Department of State *Bulletin*, September 16, 1957, p. 477.

175. Memorandum From the Special Assistant to the President (Cutler) to the President[1]

Washington, September 11, 1957.

SUBJECT

National Security Aspects of the Existing Panama Canal

1. The Panama Canal Company is considering the expenditure of $19 million over 4 years, without Congressional appropriation, to improve the existing Canal and meet anticipated world shipping requirements for the next decade. Before undertaking this expenditure the Company has sought from Governor Adams assurance that the Administration has no present plan to reconstruct the present Panama Canal into a sea level canal or to construct through Panama or Nicaragua a new sea level canal.

2. In March, 1956, the Director of the Budget reported to Governor Adams,[2] after obtaining the views of interested departments and agencies, that the conversion to a sea level canal of the present Panama Canal would cost $3.6 billion; that the interested agencies assumed a rather negative attitude toward consideration of the project; that the Joint Chiefs of Staff considered the project of "lower priority than military projects and activities required for the security of the nation"; and that State thought a Presidential Commission to study the project was unnecessary because the defense considerations were paramount.

It is understood that the building of a new sea level canal through Nicaragua would be considerably more costly.

3. The Suez incident has occurred since March, 1956. Under the circumstances, do you wish any current expression from Defense–JCS as to the military importance and priority of a project to provide a sea level canal through Panama or Nicaragua?[3]

Bob

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[1] Source: Eisenhower Library, Project Clean Up Records, Panama Canal. Top Secret.

[2] Document 129.

[3] A handwritten note on the source text indicated that Cutler had discussed this subject with Eisenhower at Newport, Rhode Island, on September 16. For Cutler's summary of that conversation, see the memorandum, *infra.*

176. Memorandum From the Special Assistant to the President (Cutler) to the Secretary of Defense (McElroy)[1]

Washington, September 18, 1957.

SUBJECT

National Security Aspects of Existing Panama Canal

1. At Newport on Monday the President discussed with me the subject matter of this memorandum and asked that I request through you the military advice below referred to.

2. The Panama Canal Company is considering the expenditure of $19 million over four years, without Congressional appropriation, to improve the existing Canal and meet anticipated world shipping requirements for the next decade. Before undertaking this expenditure the Company has sought assurance that the Administration has no present plan to reconstruct the present Panama Canal into a sea level canal or to construct through Panama or Nicaragua a new sea level or lock canal.

3. I recalled to the President that on March 1, 1956, the Director of the Budget reported to Governor Adams, after obtaining the views of interested departments and agencies, that the conversion to a sea level canal of the present Panama Canal would cost $3.6 billion; that the interested agencies assumed a rather negative attitude toward consideration of the project; that the Joint Chiefs of Staff considered the project of "lower priority than military projects and activities required for the security of the nation"; and that State thought a Presidential Commission to study the project was unnecessary because the defense considerations were paramount. (A copy of the Budget communication to Governor Adams is attached.[2]) I further stated it to be my present understanding that the building of a new sea level canal through Nicaragua would be considerably more costly than $3.6 billion.

4. The President pointed out that the Panama Canal Company might well continue with its proposed expenditure program, because, even if any decision were taken relative to a new canal in Central America, the completion of any such project would take a good many years.

5. Nevertheless, the President suggested that—in the light of what had occurred in the world since March, 1956—it would be desirable to obtain the current views of our military advisers as to

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[1] Source: Eisenhower Library, Sp. Asst. for Nat. Sec. Affairs Records, Gordon Gray Chronological File. Top Secret. Copies of this memorandum were sent to Dulles, Hughes, Adams, Goodpaster, Lay, Gleason, and Boggs.

[2] See Document 129.

the military importance and priority of a project to provide a new or alternate canal through Panama or Nicaragua, before giving any further consideration to the matter. In the course of our talk, he queried whether a sea level canal would really be more secure than a lock canal, in view of the destructive capability of modern weapons, and whether an alternate canal in Nicaragua might not be preferable to another new canal in Panama or a reconstruction to sea level of the existing Panama Canal.

6. At the same time that he asked for such a current expression of the military views of the Joint Chiefs of Staff on this question, he suggested that the Secretary of State be asked to give a current expression of foreign policy views on the matter. To that end, I am enclosing a copy of this memorandum to Mr. Dulles.

7. As this matter is not at this time pressing, it is suggested that replies from Defense and State might be transmitted on or before November 15, 1957.

Robert Cutler[3]

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[3] Printed from a copy which bears this typed signature.

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177. Memorandum From the Special Assistant to the President (Cutler) to the Special Assistant to the President (Adams)[1]

Washington, November 19, 1957.

SUBJECT

National Security Aspects of the Existing Panama Canal and Alternatives to It

As you know, the Panama Canal Company, prior to undertaking a $19 million four-year improvement program for the existing canal, has sought assurance that the Administration has no present plan to reconstruct the present canal as a sea level canal or to construct through Panama or Nicaragua a new canal.

On September 18, at the President's request, I wrote the Secretary of Defense asking for current Joint Chiefs of Staff views as to the military importance and priority of a project to convert the present Panama Canal into a sea level canal or to provide a new or alternative canal through Panama or Nicaragua. Also at the President's request, I asked the Secretary of State to provide a current expression of foreign policy views on this matter. I have now received from the Secretary of Defense and the Under Secretary of State[2] the attached views which may be summarized as follows:

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[1] Source: Eisenhower Library, Project Clean Up Records, Panama Canal. Top Secret.

a. *JCS:* A sea level conversion of the present Canal would reduce its vulnerability and would increase its operational capabilities against nuclear attack. The present Canal is strategically important. Construction of a sea level canal in Panama is not as important strategically and should not be undertaken at the expense of military projects or activities required for national security. The cost of a second canal would be disproportionate to the additional degree of security provided because it would require little more effort for an enemy to damage two canals in the same general area than to damage one.

b. *State:* Reconstruction of the Panama Canal appears more advantageous than construction of a new canal. A new canal through Panama or Nicaragua would require negotiation of a treaty probably involving a degree of Panamanian or Nicaraguan participation in ownership and operation. A Nicaraguan Canal would cost $6 billion as against $5 billion for reconstruction of the Panama Canal; would probably antagonize the Panamanian government; and might oblige us to negotiate with Costa Rica as well. Rights of El Salvador, and possibly Honduras, might also be involved; consultation with other Western Hemisphere countries might be necessary. On the other hand, a Nicaraguan Canal would provide a shorter and alternative route, lessening risks of delay from accidents and assuring expeditious handling of increased traffic in the Panama Canal.

Robert Cutler[3]

P.S. My personal appraisal of these replies is that a canal through Nicaragua is not favored and that a reconstruction of the existing Canal to sea level is at a pretty low priority in the scale of our national security needs.

R.C.

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[2] Letters from Neil McElroy to Cutler, dated November 14, and Christian Herter to Cutler, dated November 18, were attached to the source text, but are not printed.

[3] Printed from a copy which bears this typed signature.

ARGENTINA

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND ARGENTINA[1]

178. Editorial Note

Assistant Secretary of State for Inter-American Affairs Holland visited Argentina December 4–8, 1954, to discuss with Argentine President Juan Domingo Perón the general state of United States–Argentine relations. In two separate conversations they considered, among other matters, the question of profit remittances for American-owned business firms in Argentina; see *Foreign Relations,* 1952–1954, volume IV, page 481.

On January 19, 1955, the Argentine Government issued Decree 637, which permitted foreign-owned mining and industrial enterprises to remit profits, if earned after August 23, 1953, up to 8 percent a year on their invested capital. The decree in effect granted retroactive application of Law No. 14222, the Law on Foreign Capital Investment, enacted on August 23, 1954, to capital investments antedating that legislation.

In telegram 397 from Buenos Aires, January 20, Ambassador Nufer informed the Department of State that the provisions of the decree were "extremely disappointing. About half American companies here not engaged in manufaeturing or mining," the telegram read in part. "Furthermore, provision that all past remittances above five percent will count as repatriated original capital will reportedly deprive all but few old established American companies of any capital base whatsoever and preclude any future remittances." Nufer proposed that, unless the Department instructed him otherwise, he would seek an interview with Perón the following week and point out to him that the decree, as worded, "falls far short of what we expected as [a] result [of] Mr. Holland's conversation with him; that it not only affords little if any relief to old established American capital but in fact in many instances precludes future remittance." (Department of State, Central Files, 811.05135/1–2055) The Embassy transmitted the text of Decree 637 to the Department in despatch 647 from Buenos Aires, January 21. (*Ibid.,* 800.05135/1–2155)

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[1] For previous documentation, see *Foreign Relations,* 1952–1954, vol. IV, pp. 400 ff.

179. Telegram From the Ambassador in Argentina (Nufer) to the Department of State[1]

Buenos Aires, January 25, 1955—5 p.m.

411. Embassy fully agrees Deptel 453 January 25.[2]

Am seeking appointment with Peron for Thursday, 27th. Will outline reasons disappointment Decree 637 along lines reference Deptel; reiterate Holland's arguments to Peron including political pressure at time for more liberal treatment old US investors; and urge action enabling all US companies, otherwise qualifying under law 14222, to benefit.

In approaching Peron it must, I believe, be borne in mind that other problems, including petroleum, American Foreign Power, et cetera, are at a point where Argentine attitude thereto will be affected importantly by our own actions. (In regard to petroleum, information contained Deptel 454[3] should prove helpful.) Since outcome of these questions could seriously affect US-Argentine relations, and in order contribute to atmosphere favorable their solution, as well as to solution problem profit remittances, Embassy believes prompt and substantial gesture by US now required.

In this context it is Embassy belief that we must not allow profit remittances problem to obscure broader objectives here which involve hemisphere security and problem of international communism. If impasse reached on EXIM Bank credits,[4] as result of profit remittances problem, the substantial and gratifying progress we have made in last 18 months (including number of steps taken by Argentina beneficial to US interests) could be jeopardized.

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[1] Source: Department of State, Central Files, 811.05135/1–2555. Confidential; Niact.

[2] In telegram 453 the Department informed the Embassy that it was doubtful that the United States would have a strong point in complaining that the decree applied only to manufacturing and mining since those categories were specifically stated in Law 14222. "Believe you would be on stronger ground", the Department suggested, "by placing main force of argument on disappointing aspects of provision that all past remittances exceeding five per cent will count as repatriated original capital. This element seems new and inconsistent with our understanding and possibility that some companies might be deprived any capital base whatsoever particularly objectionable." It advised the Embassy, furthermore, that Perón's decree placed the Department in an embarrassing situation since on the basis of his assertions the Department had reported as fact that the provisions of Law 14222 would be extended to old investments without change and without any added burdens on old investors. In deciding whether to talk with Perón, the Department pointed out that the Embassy would of course weigh carefully whether the American & Foreign Power Company (A&FP) would be included and if so whether or not that circumstance might make it less desirable to take a strong stand against the terms of Decree 637. (*Ibid.*, 811.05135/1–2155) The latter reference was to the pending negotiation of a settlement covering the expropriation in 1951 of American & Foreign Power's utility properties in Argentina by the Argentine Government.

[3] In telegram 454, January 24, the Department reported on the state of the negotiations between the Argentine Government and the Standard Oil Company of California over a petroleum concession. The principal obstacle to an agreement, the Department pointed out, was Argentina's insistence that the company agree to turn over upon demand its entire production to supply the Argentine domestic market. (*Ibid.*, 835.2553/1–2155)

The Embassy, therefore, believes and strongly recommends that granting of EXIM Bank credit should not be further delayed because of limitations of Decree 637. In my talk with Peron I will not, unless otherwise instructed, relate question of credits to the satisfactory treatment on remittances. I realize this procedure involves risk Argentina may not broaden rules for remittances and that Department and Embassy would probably be subject criticism should credits be announced without prior additional relief for old investors. I believe, however, that suggested course is best psychological approach to Peron and offer most reasonable prospect of eliciting favorable action. Insistence on complete advance quid pro quo might well prove counter-productive and seriously detrimental our overall objectives here.

Niact comment by end of day Wednesday required if to be used for probable appointment Peron early Thursday.[5]

Nufer

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[4] On December 22, 1954, the National Advisory Council on International Monetary and Financial Problems (NAC) met to discuss, among other matters, a request from Argentina for an Export-Import Bank loan to help finance an integrated steel mill. At the meeting, the NAC approved the extension of assistance in principle and authorized the Bank to give continued consideration to the matter, but it decided to request additional information from the Argentines, in order to provide an opportunity to assess such steps as the Argentines might take toward improvement of the situation for U.S. business interests in Argentina. (*Ibid.*, NAC Files: Lot 60 D 137, Minutes)

[5] Telegram 462 to Buenos Aires, January 26, reads in part as follows: "Department concurs fully observations Embassy's 411 and agrees question credits should not be related remittance problem in Peron talk." (*Ibid.*, Central Files, 811.05135/1–2555)

In telegram 419 from Buenos Aires, January 27, Ambassador Nufer reported as follows:

"In discussing decree 637 with Peron today I said it appeared to afford relief to only a limited number of companies because of capital base provisions and that many US firms here consequently felt discouraged. I had hoped decree's provisions could have been more liberal.

"Gomez Morales, who was present, said decree's scope necessarily limited because of foreign exchange lack but that Argentine Government intended liberalize its provisions when conditions permitted and hoped eventually establish free exchange market. He asked whether it would be helpful if decree were amended to permit companies to add profits of up to 8 percent annually to original investment instead of only 5 percent. I said it was difficult for me off hand to gauge effect such change which would obviously be step in right direction but it would be highly desirable if, in addition thereto Argentine Government could issue categoric statement that decree only temporary measure and that its provisions would be liberalized as soon as possible. Both Peron and Gomez Morales expressed agreement." (*Ibid.*, 811.05135/1–2755) Alfredo Gómez Morales was the Argentine Secretary for Economic Affairs.

180. Minutes of the 225th Meeting of the National Advisory Council on International Monetary and Financial Problems, Washington, March 1, 1955[1]

[PARTICIPANTS]

Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
  Mr. George H. Willis
  Mr. Henry J. Bittermann
  Mr. Elting Arnold
Mr. Jack C. Corbett, State Department
Mr. Marshall M. Smith, Commerce Department
  Mr. George Wythe
Gov. M.S. Szymczak, Board of Governors, Federal Reserve System
  Mr. Lewis N. Dembitz
Mr. Lynn U. Stambaugh, Export-Import Bank
  Mr. Glenn E. McLaughlin
Mr. Jack F. Bennett, Foreign Operations Administration
Mr. Robert M. Macy, Bureau of the Budget, Visitor
Mr. E. C. Hutchinson Bureau of the Budget, Visitor
Mr. Virgil Salera, Council of Economic Advisers, Visitor
Mr. C. Dillon Glendinning, Secretary
Mr. C. L. Callander, NAC Secretariat

1. Proposed Export-Import Bank Loan to Argentina—Steel Mill

The Chairman[2] recalled that in its previous consideration of the Argentine steel mill credit, the Council had agreed that the Export-Import Bank would consider the loan further and refer it again to the Council before final action (NAC Document No. 1711 and Council Minutes No. 221).[3] The Export-Import Bank was now requesting approval of the credit in a somewhat larger amount than had been previously considered.

Mr. Stambaugh briefly reviewed the history of the Argentine steel mill project. The Bank estimated that on the contemplated scale of output the production costs of the mill would be slightly under the cost of imported steel in Argentina. He noted that construction of the mill has already begun and that completion of it is a matter of Argentine national pride. Therefore, it will go forward whether or not the loan is granted. The Bank now asked for National Advisory Council approval of a credit of up to $61 million, to clear the way for further negotiations.

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[1] Source: Department of State, NAC Files: Lot 60 D 137, Minutes. For National Advisory Council Use Only.

[2] W. Randolph Burgess, Under Secretary of the Treasury for Monetary Affairs.

[3] Neither printed, but see footnote 4, *supra*.

Mr. Corbett informed the Council that the Acting Secretary of State[4] was in accord with the present proposal of the Bank. He noted the evidence of improvement in the position of United States investors in Argentina, and commented that negotiations between Argentina and United States oil companies are progressing favorably. The Department of State feels that conditions in Argentina on matters of concern to the United States are such as to provide a basis for approval of the loan.

Mr. Smith[5] indicated that the Department of Commerce had considered the proposal with great care, and would not oppose the loan as a purely financial proposition. It was felt, however, that in view of the problem of the United States investor in Argentina and the question of building up foreign industries competitive with United States industries, the loan raised broader policy questions. He therefore raised the question whether the loan proposal might appropriately be referred to the Council on Foreign Economic Policy.

The Chairman replied that the loan proposal is clearly within the statutory jurisdiction of the NAC, and that the broader questions of policy had already been dealt with in the Argentine case. He referred, in this connection, to the trip of Assistant Secretary Holland to Argentina in the fall of 1954 and to the progress that has been made since then with respect to the position of the American investor in Argentina. He therefore felt that the Council now has a basis for approval of this loan that had not previously existed.

Mr. Szymczak agreed that progress had been made in the treatment of United States investors, and he was willing to accept the judgment of the Export-Import Bank as to the prospects for repayment. Although he had entertained some doubt on the economic justification for a steel mill in Argentina, he indicated that the Federal Reserve Board would not object to the loan, since the Argentines would proceed with the mill in any case. Mr. Bennett indicated that on the basis of the views of State Department, FOA did not object to the loan.

The Chairman announced that the majority favored approval of this loan in principle, and requested the Bank to keep the Council informed of the details as negotiations proceed.

The following action was taken (Action No. 762):

"The National Advisory Council advises the Export-Import Bank that it offers no objection to consideration by the Bank of a loan of up to $61 million to the Sociedad Mixta Siderurgica Argentina to finance, in participation with United States suppliers, a portion of the United States costs of steel producing facilities in Argentina.

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[4] Herbert Hoover, Jr.

[5] Deputy Assistant Secretary of Commerce for International Affairs.

It is understood that the credit would be for a period of approximately 19 years, including a grace period of approximately 4 years, and would bear interest at 5 percent."

[Here follows discussion of proposed Export-Import Bank loans to Guatemala and Brazil.]

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181. Memorandum of a Conversation, Department of State, Washington, March 15, 1955[1]

SUBJECT

US-Argentine Economic Relations:
1) Eximbank Steel Credit
2) Surplus Cottonseed Oil
3) Problems of Meatpackers and American & Foreign Power Co. in Argentina

PARTICIPANTS

Argentine Ambassador Hipolito J. Paz
Assistant Secretary Holland
OSA—James F. O'Connor, Jr.

Ambassador Paz said that he wished to express appreciation for all Mr. Holland had done in connection with the favorable Eximbank decision on financing assistance for the Argentine steel project [the Eximbank announced establishment of a $60 million line of credit on March 10.][2] He went on to say that he had despatched a letter to Peron on March 11 on this matter in which he indicated the personal contribution made by Mr. Holland to its successful termination, and that he wanted to convey his Government's gratitude in anticipatory fashion.

The Ambassador then referred to the Argentine desire to purchase US surplus cottonseed oil [Argentina wants 70,000–100,000 tons, 20,000 of which is for shipment by the end of March, to meet a drought-caused shortage, and negotiations and internal US discussions are proceeding], on which he said the Argentine Economic Counselor, Dr. Bunge, had been dealing with the State Department, and indicated that any push which the Department could give this matter would be welcome. Mr. Holland stated his understanding that this matter was moving along and Mr. O'Connor commented that dealing with necessary details was unavoidably time consuming.[3]

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[1] Source: Department of State, Central Files, 835.10/3–1555. Limited Official Use. Drafted by O'Connor on March 16.

[2] These and following brackets are in the source text.

Mr. Holland then said that he wished to bring up some problems on the other side and stated that settlement of the difficulties being experienced in Argentina by the U.S. meatpackers and by the American & Foreign Power Company would represent a substantial advance in economic relations.[4] He went on to say that he had fortunately been able to respond affirmatively and helpfully to President Peron's recent letters on the stalling of petroleum negotiations with Standard of California and on the Eximbank steel credit,[5] but that he needed the assistance which would be provided by solution of such unsolved issues as these in order to be able to continue to meet the US domestic political problem posed by hostility to U.S. economic cooperation with Argentina by certain economic interests while long-standing problems like those of the meatpackers and the American & Foreign Power Company continued unsolved. Mr. Holland said that this seemed a particularly propitious time to allay this hostility by constructive action. He reminded Ambassador Paz that he had been subjected to severe criticism in connection with the Eximbank assistance to the Argentine steel project and that, while he was in no wise disturbed by this criticism, since the U.S. Government had embarked on a firm policy of cooperation with Argentina, that policy could continue to be implemented more easily with the disappearance of such complicating economic issues as those referred to.

Referring specifically to the American & Foreign Power problem, Mr. Holland said that he had been visited recently by officials of that company to advise him once again of their unsatisfactory situation in Argentina, and that he had told them that he would not support any effort on their part to seek to impose an unwarrantedly favorable settlement of their problems on the Argentine Government, but that he would work to the utmost to support a fair, mutually satisfactory resolution of outstanding differences.

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[3] On April 25 the United States and Argentina signed an agreement authorizing the sale to Argentina, through private American traders, of 20,000 metric tons of surplus cottonseed oil. The agreement, which provided for the sale of commodities valued at approximately $5.8 million, was concluded under Public Law 480, the Agricultural Trade Development and Assistance Act of 1954, approved on July 10, 1954. (68 Stat. 454) The agreement was signed on behalf of Argentina by Gabriel Galvez, Chargé of the Argentine Embassy in the United States and on behalf of the United States by Samuel C. Waugh, Assistant Secretary of State for Economic Affairs; for text, see 6 UST 1085. Documentation regarding the negotiation of the agreement is in Department of State, Central File 411.3541.

[4] Representatives of the three American meatpacking firms located in Argentina, Compañía Swift de la Plata, Wilson and Company, and Armour and Company, had complained to Ambassador Nufer of the difficulties which their companies were having with the Argentine Government agencies which regulated their operations. In despatch 664 from Buenos Aires, January 28, the Embassy summarized these problems as follows: "The packers claim that they are not permitted to earn adequate returns on their Argentine operations because of an inadequate margin between prices of steers which they purchase and the selling price on fresh beef sold for local consumption, and because of various other governmental acts and regulations. One of the decrees in question was to have authorized adjustments in the operating margin. This decree, however, was not acted upon." (*Ibid.*, 835.311/1–2855)

[5] Not found in Department of State files.

Ambassador Paz commented that the American & Foreign Power problem existed on two levels; there was no doubt that that corporation had a legitimate grievance which should be dealt with, but that beyond this difficulties arose in working out a specific solution. The Ambassador also adverted to the bureaucratic obstacles present in dealing with the details of solution.

Ambassador Paz displayed general agreement with Mr. Holland's remarks on the value of achieving solution of the problems which the latter had mentioned in the interest of over-all relations, and offered his cooperation. He said that if he could be supplied by the State Department with a memorandum on these two matters which would provide him with something to go on, he would write directly to Peron urging steps toward solution. The Ambassador also offered to meet once again with officials of American & Foreign Power in the interest of trying to develop some approach which might prove useful in Buenos Aires, and said that he would get in touch with American & Foreign Power to this end after the present meeting.

Mr. O'Connor said that while the Department was of course informed of the current general status of the two problems mentioned, he could not be sure that it was in possession of all the most recent details; but that he would in any event provide a memorandum for the Ambassador's use.[6]

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[6] On March 28, Paz met again with Holland and O'Connor to discuss the problems of the meatpackers and American & Foreign Power. A memorandum of that conversation by O'Connor reads in part as follows: "Mr. Holland commented that he had no special axe to grind nor any specific solutions to propose in connection with these difficulties of American business interests in Argentina, but was motivated solely by a desire to see any complicating factors in US-Argentine economic relations removed." (Department of State, Central Files, 835.10/3–2855)

182. Despatch From the Ambassador in Argentina (Nufer) to the Department of State[1]

No. 839 *Buenos Aires, March 23, 1955.*

SUBJECT

Secretary of Navy Thomas' Conversation With President Perón

There is enclosed a copy of my memorandum of the conversation on March 22 between President Perón, Foreign Minister Remorino, Secretary of Economic Affairs Gómez Morales, Secretary of the Navy Thomas, and myself.[2]

The conversation assumes special significance because of the statements made by President Perón concerning the role of Argentina in the event of a third world war. He said to Secretary Thomas that in event of such a war Argentina, because of its geographic position, would have to play an important role which would become a vital one if the Panama Canal was destroyed. In any event, he said Argentina would have to take a very active part in the defense of the southern Hemisphere.

In a brief conversation with me after the ceremony, in which Secretary Thomas was awarded the Argentine Order of Merit, Perón said that in the next war "Argentina would really have to fight and we want to be as well prepared as possible".

In his conversation with Secretary Thomas, Perón said further that it would be very useful if conversations could take place between the U.S. and Argentine technical personnel to map out Argentina's contribution to hemispheric defense in greater detail than provided for in the defense plans of the Inter-American Defense Board. In his later remarks to me he said that he attached great importance to the suggested discussions.

I regard Perón's remarks as intended to indicate his readiness to discuss bilateral military cooperation between the U.S. and Argentina. He could hardly go further than he did in this conversation to reveal Argentine interest in such cooperation without making an explicit request for negotiations.

Recommendation: This clear-cut initiative by Perón with an official of Cabinet rank affords an excellent opportunity for carrying another step forward our policy of enlisting Argentine support for our defense plans for this Hemisphere and for Argentine solidarity in carrying out our world-wide defense program. Accordingly, if the consideration of this matter, which has taken place pursuant to the

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[1] Source: Department of State, Central Files, 735.5-MSP/3–2355. Secret.

[2] Not printed.

Department's letter of November 15, 1954, to the Secretary of Defense, has reached a sufficiently advanced stage to make this at all possible, I recommend that I be authorized to use Perón's remarks as a spring board for informally sounding him out on the possible interest of Argentina in a military agreement.[3] This could be done in a purely informal and exploratory way along the lines set forth in my Despatch No. 34, July 14, 1954,[4] repeated in my Despatch No. 255, September 22, 1954.[5]

Albert F. Nufer

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[3] See vol. VI, Document 21. The Department summarized this letter for the Embassy in telegram 700 to Buenos Aires, April 28. That telegram reads in part as follows: "Department interprets Defense views mean very limited funds substantially less than Brazilian program prospectively available implement any military cooperation Argentina. Department desires your views whether foregoing provides basis Ambassador approach Peron to concur his suggestion technical conversations and propose assignment US survey group Argentina near future. Embassy should appreciate US would not be in position this time make any commitment grant aid. Reply urgently but take no other action this matter pending further instructions." (Department of State, Central Files, 735.5-MSP/3-2355)

In telegram 651 from Buenos Aires, April 29, the Embassy replied as follows:

"Embassy considers unfortunate apparent severe limitation funds prospectively available (Deptel 700 April 28). Nevertheless believes Defense reply provides basis approach Peron to concur his suggestion technical conversations and propose assignment US survey group Argentina near future. This is on assumptions (1) purpose of survey as stated by Defense would be make recommendations Argentine force objectives hemisphere Defense, and (2) funds would be sought later to implement any recommendations mutually agreed upon." (*Ibid.*, 735.5-MSP/4-2955)

[4] Not printed. (*Ibid.*, 735.11/7-1454)

[5] Not printed. (*Ibid.*, 735.5-MSP/9-2254)

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183. Editorial Note

On April 25 the Standard Oil Company of California signed a contract with the Argentine Government granting the company the right to refine and market petroleum in Argentina. (Telegram 636 from Buenos Aires, April 25; Department of State, Central Files, 835.2553/4-2555) At a meeting of the Secretary's Staff on April 26, Holland brought up this subject: "Mr. Holland noted reports that the Argentine Government had signed a contract with Standard of California which might set a valuable precedent for other Latin American countries which had blocked development of their oil resources by obstructing private investment." (Notes of the Secretary's Staff Meeting; *ibid.*, Secretary's Staff Meetings: Lot 63 D 75)

On May 6, the Argentine Government issued an executive decree approving the contract with Standard Oil of California. The contract was then submitted to the Argentine Congress for approval on May 9. (Telegram 676 from Buenos Aires, May 10; *ibid.*, Central Files, 835.2553/5–1055)

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184. Letter From the Secretary of State to the Secretary of Defense (Wilson)[1]

Washington, June 3, 1955.

DEAR MR. SECRETARY: I refer to the letter of April 20, 1955, from the Deputy Assistant Secretary of Defense, Admiral Davis, to me,[2] which includes a recommendation that a U.S. military survey be conducted to make recommendations on Argentina's force objectives for hemisphere defense if this Department considers exploratory talks to be feasible and politically expedient at this time. It is understood that such a survey would be preliminary to the possible initiation of a military grant assistance program with Argentina.

In view of the desire of President Perón that conversations be held between Argentina and the United States regarding Argentina's role in hemisphere defense, as expressed to Secretary of the Navy Thomas and reported in the attached despatch No. 839 from the American Embassy in Buenos Aires,[3] I believe the time is appropriate for such conversations to be proposed by Ambassador Nufer. Before such an approach is made, however, I believe it essential that the Department of Defense and the Department of State be in agreement that funds to implement any bilateral military assistance agreement which may eventuate will be made available or will be sought from the Congress, and that such funds will be sufficient at least to approximate reasonable Argentine aspirations in relation to other bilateral programs. I should appreciate your informing me as to the amount which might be required for an Argentine program, and whether the Department of Defense is in agreement that such funds will be made available or will be requested from the Congress in the event that Argentina is prepared to agree to the necessary terms and conditions.

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[1] Source: Department of State, Central Files, 720.5–MSP/4–2055. Secret. Drafted on May 20 by Jamison. In a memorandum to Dulles, May 20, Holland enclosed a draft letter to Defense, identical to the source text. "It seems to me essential," Holland stated in part, "that Defense put itself clearly on record that it will make funds available or seek them from the Congress before conversations with Perón are initiated. The amount contemplated should be sufficient to meet reasonable Argentine aspirations in relation to other bilateral programs. Although it is possible that Perón will not show any disposition to agree to the terms required for us to provide grant aid, we should do all that is feasible to insure that, if he does agree to such terms, we are in a position to deliver the goods." (*Ibid.*, 720.5–MSP/4–2055)

[2] Vol. VI, Document 23.

[3] Document 182.

Should there be agreement on these points, this Department will authorize Ambassador Nufer to make the necessary approach to the President of Argentina. Should the initial conversations which may be held make it appear likely that the Argentine Government is prepared to enter into the agreements requisite to its participation in the grant aid program, it is also believed essential that appropriate information regarding such possible Argentine participation be provided to the Congress, in view of the interest expressed by Congressional committees regarding the possible provision of grant assistance to that government.

The Department of State is in agreement with those portions of your letter of April 20 which contemplate the provision of additional assistance to Brazil and Cuba and assumes that funds required for this assistance are available or will be included in the current request to Congress for military assistance funds.[4]

Sincerely yours,

John Foster Dulles

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[4] In a letter to Dulles, August 24, Gordon Gray enclosed a memorandum from the Joint Chiefs of Staff to Secretary of Defense Wilson, dated August 2, concerning the possible initiation of a military assistance program with Argentina. That memorandum reads in part as follows: "The Joint Chiefs of Staff do not consider it judicious to make an unsupported estimate of the probable initial size or monetary value of a military aid program for Argentina. Lack of detailed knowledge of the status of the Argentine military forces and their equipment would make such an estimate of little or no value." Appropriate recommendations, the Joint Chiefs pointed out, could only be developed after the United States first undertook a military survey of Argentina. Gray wrote that the Department of Defense concurred with the views of the Joint Chiefs of Staff on this subject. (Department of State, Central Files, 735.5–MSP/8–2455)

In reply Robert C. Hill sent a letter to Gray, dated November 25, which reads in part as follows: "The Department of State has not been able, because of the political situation in Argentina, to authorize military discussions with the Argentine Government looking toward a possible grant military assistance program. It would be desirable, however, to initiate discussions as soon as politically feasible. In this connection I understand that a military survey team could be organized on a stand-by basis. If this understanding is correct, it is suggested that such a team be organized to be utilized as soon as conditions permit." (*Ibid.*)

185. Memorandum of a Conversation Between the Adviser, Argentine Ministry of Economic Affairs (Juan Scarpati), and the Deputy Director of the Office of South American Affairs (Dearborn), Department of State, Washington, June 8, 1955[1]

SUBJECT

(1) Argentine-Eximbank Relations
(2) Petroleum Developments
(3) Remittance Problem
(4) Argentine-Russian Relations

I invited Dr. Scarpati to call on me today principally for the purpose of impressing upon him the importance of Argentina's fulfillment of Peron's promise of action on the remittance problem.

I first asked Dr. Scarpati how his talks with the Eximbank were coming along. He said that he now believed that any misunderstanding in the procedure for arriving at a draft agreement on the steel plant loan had been cleared up and if fairly rapid progress continued to be made he expected to return to Buenos Aires a week from next Friday (June 17). He stressed again the Argentine Government's urgent desire to sign the steel plant agreement with the Bank since further action on all other parts of the project had to be held up until this was accomplished. General Olano[2] was prepared to come to Washington on a moment's notice when preparations for the signing were completed.

I then brought up with Dr. Scarpati the question of Argentine Congressional approval of the petroleum agreement with the Standard Oil Co. of California. I showed him an item that had appeared in the *New York Times* on June 6 in which it was noted that President Peron had urged the Argentine Congress to approve the agreement this week and asked for his comment. He said he had not heard of this development, but believed it showed that the President was showing the Congress again what a high priority he gives to this matter. I told Dr. Scarpati that we had just received a cable this morning[3] from our Embassy stating that his Government had approached the Standard Oil Company's negotiator in Buenos Aires as predicted by Dr. Scarpati in his conversation at the Department on June 2.[4] He reiterated his belief that the changes which the Argentine Government desired would not be difficult to make from the point of view of the Company. He said he thought a considerable amount of the difficulty lay in the fact that the agreement was negotiated in English and that the literal Spanish translation appeared somewhat objectionable to Argentine readers.

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[1] Source: Department of State, Central Files, 835.331/6–855. Confidential. Drafted by Dearborn.

[2] General José Manuel Olano, Chairman of the Board of Sociedad Mixta Siderurgia, Argentina (SOMISA), the Argentine steel corporation with which the Export-Import Bank had been negotiating the proposed $61 million loan.

[3] Apparently a reference to telegram 744 from Buenos Aires, June 7, in which the Embassy reported that on June 3 Gómez Morales requested a revision of the provisions on termination rights and compensation payments in the Argentine contract with Standard Oil of California in order to meet the objections of Peronista Congressmen. (Department of State, Central Files, 811.05135/6–755)

I then brought up the remittance problem stating that while I was sure that our position had been fully explained to him by officers of our Embassy in Buenos Aires and while I was fairly sure that we understood through our Embassy the views of the Argentine Government, I wished nevertheless to take this opportunity to exchange views with him on the subject.[5] Dr. Scarpati outlined in brief Argentina's views. He mentioned President Peron's letter to Mr. Holland on the subject and showed clearly that he recognized that President Peron had made a commitment. He said that the situation presently was that the President, having made the commitment, had instructed Gomez Morales to implement it and up to the present time Gomez Morales had not been able to find a way to do this. Dr. Scarpati described the serious exchange situation which Argentina faces and said that Argentina would face the end of this year without foreign exchange. He said that the main reason for this was that there had been crop failures in corn, sunflower seed and linseed. There would be enough corn for local consumption but none for export. By the end of the year Argentina would have used up all of her credits under her trade agreements. Considering this situation if Argentina were today considering the Eximbank loan for the steel plant, it would not be able to approve. He said that Argentina had felt that it could set aside $8 million annually to service this debt, but that as a result of the crop failures mentioned this decision would not have been made today. (I asked if Argentina still wanted to go ahead with the CADE application,[6] and he replied 'Oh, that is included in the $8 million." I did not press him on the inconsistency of his remarks.) He also said that the remittances to the United Kingdom had been agreed upon some time ago when Remorino and Gomez Morales were in London, but that if conversations regarding them were held today Argentina's financial situation would not permit her to agree to such an arrangement. He said the Swiss presently had a mission in Argentina attempting to come to some agreement on remittances but that the Argentines had not been able to do anything for them.

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[4] A memorandum of this conversation, drafted by Dearborn, is *ibid.*, 835.331/6–225.

[5] On April 15, Nufer met with Perón to discuss, among other matters, the problem of profit remittances. At that time, the Argentine President assured Nufer that he would approve the remittance of profits to old established U.S. investors and presented the American Ambassador with a letter for Holland which explained the Argentine position. A memorandum of that conversation, along with Perón's letter to Holland, were transmitted to the Department in despatch 927 from Buenos Aires, April 15. (*Ibid.*, 811.05135/4–1555)

[6] The Compañía Argentina de Electricidad (CADE) was a Belgian-owned utility company which served the Buenos Aires area and provided approximately 50 percent of Argentina's power and most of that city's power.

I told Dr. Scarpati that I was indeed sorry that Argentina's economic position had suffered a set-back. I said that I hoped, however, that he would realize that we too had very definite problems related to the question of remittances. I said that we were very sincere in our desire to cooperate with Argentina to help her realize many of her economic objectives and mentioned assistance in the development of Argentina's power facilities as an example and referred specifically to the CADE application at the Eximbank. I said, however, that it was becoming increasingly difficult for us to follow through on this cooperation principally because of the failure of the Argentine Government do something about remittances. No one here expected Argentina to make all profit remittances presently outstanding, but it was becoming practically essential for some token remittances to be made if we were going to be able to continue to obtain favorable action on a number of pending questions.

I remarked parenthetically that I was not referring to the steel plant loan since we considered that that was over and done with, and it was our objective to have the agreement signed as soon as possible. (I did not want Dr. Scarpati to think that the steel plant agreement was being held up because of the remittance problem since this is a firm commitment which we now have and the Argentines would almost certainly charge us with bad faith if we now tried to impose new conditions as a quid pro quo.) I stated that we were most anxious to have new U.S. capital enter Argentina to help develop the country and that it was also our objective to have U.S. capital now operating in Argentina satisfied and desirous of expanding. However, I pointed out that when businessmen came to us to discuss their operations in Argentina or prospects for investment there and when we outlined point by point the many phases in which our relations have greatly improved they always come back with the question "what about the remittances". I said that until something was done about this it did not seem likely that new U.S. capital was going to enter Argentina in any substantial amount or that companies already there were going to expand their operations. Dr. Scarpati said that he appreciated the position of the U.S. and that he agreed completely with my observations on the connection of the remittance question with that of U.S. capital entering Argentina. He said he hoped that possibly it might help to have it understood among U.S. businessmen that Argentina had every intention of resuming remittances when that was possible but that nothing would be possible this year because of the crop failures. I reiterated my statement about the necessity for Argentina's doing something even if only something that might be considered token remittances.

He also suggested it might be possible to reach an agreement that Argentine exports to the U.S. should reach a certain specified level and that any dollar exchange over that level should be devoted to remittances. (It is not clear to me whether all the excess or a certain percentage of it was to be applied to remittances.) I did not discuss this suggestion with him.

Among other things I asked Dr. Scarpati how Argentina's trade with the USSR was coming along. He said that this presented Argentina with a good opportunity of which she was taking full advantage. He said he would tell me confidentially that Argentina was able to sell its poorest grade meat and its poorest grade hides to the USSR at excellent prices and in return receive much needed siderurgical equipment. I asked if Argentina was importing any machinery from the USSR, and he replied that it was not and he saw no future for Russian machinery in Argentina. He spoke of the Russian trade fair now in Buenos Aires and said that the automobiles and other machinery were years behind the products of the Western countries and he knew the Argentines would not want to invest in this equipment. Furthermore, the Argentines would be apprehensive lest they could not obtain spare parts. He said his country was fully aware that the principal objective of Russian trade with Argentina and of the Russian trade fair was propaganda. While the Argentines were under no illusions on this point, they were very glad to take advantage of the moment to sell certain otherwise unsalable products at high prices.

186. Telegram From the Acting Secretary of State to the Embassy in Argentina[1]

Washington, June 20, 1955—4:59 p.m.

877. For Nufer from Holland. Embassy merits congratulations report Embtels 769[2] and 777.[3]

Department knows Embassy presently directing its main attention to reporting and analyzing all aspects uprising of interest US. Department particularly hopes light can now be shed on heretofore mysterious influences which sparked Government's feud with Church last November and which may still be working toward yet unexplained objectives possibly of considerable importance to US-Argentine relations.

Communists and other enemies of US will surely attempt exploit situation to prejudice recent constructive achievements Argentine-US relations, and appears desirable for Embassy prepare Government for period of possible bitter US press criticism. Also you may wish seek informal opportunities make Argentine officials aware that demonstrations religious tolerance, punishment looters and church incendiaries, announcement Government reconstruct churches, and further constructive progress in principal economic problems now under discussion US will all be helpful in countering severe reaction already felt among US press and public.[4]

Hoover

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[1] Source: Department of State, Central Files, 735.00/6–1955. Drafted by Dearborn and approved by Holland.

[2] In telegram 769, June 18, the Embassy reported that an "uprising" against the rule of President Perón began suddenly on the afternoon of June 16. "In summary," the telegram read in part, "consensus Embassy opinion is that issue last few months culminating in uprising was fundamentally religious. More accurately it was the same contest which has always existed during Peron regime involving essentially same people both sides. The difference is that contest was now focused on and sparked by a Catholic Church struggle [to] preserve its traditional position here and preserve its right [to] counsel its people on political and temporal matters which it believes affect their moral and spiritual lives." It states further that "social and political ferment aroused by church state conflict and intensified by abortive rebellion and aftermath can be expected [to] continue with unpredictable consequences." (*Ibid.*, 735.00/6–1855)

[3] In telegram 777, June 19, the Embassy reported further on the aftermath of the June 16 rebellion, pointing out that the situation in Buenos Aires was "normalizing." (*Ibid.*, 735.00/6–1955)

[4] The Embassy in Buenos Aires continued its analysis of the revolt of June 16 in the following despatches to the Department: despatch 1167, June 22 (*ibid.*, 735.00/6–2255); despatch 24, July 7 (*ibid.*, 735.00/7–755); despatch 110, August 11 (*ibid.* 735.00/8–1155); and despatch 123, August 16 (*ibid.*, 735.00/8–1655).

187. Memorandum of a Conversation, Department of State, Washington, June 27, 1955[1]

SUBJECT

1. Argentine Revolt
2. Various Aspects of US-Argentine Relations

PARTICIPANTS

Argentine Ambassador Hipólito J. Paz
Assistant Secretary Holland
OSA—James F. O'Connor, Jr.

Mr. Holland expressed condolences to Ambassador Paz on the recent death of his father. The Ambassador said that he had considered it inexpedient to return to Buenos Aires immediately because of the inexperience of his Minister Counselor (Dr. Galvez) in present circumstances.

Ambassador Paz mentioned to Mr. Holland that this morning's *Wall Street Journal* had carried an article on US-Argentine relations by a reporter named Philip Geyelin [headed "Argentine Crisis: US Officials Favor Peron—But Largely for Business Reasons,"][2] which he considered realistic and constructive and a summary of which he intended to cable to Buenos Aires. The Ambassador went on to say that he had engaged in an exchange of views with Mr. Geyelin over a long period of time, and implied that he had been responsible in some measure for the viewpoint of this particular story. Mr. Holland agreed that it was a useful article.

Ambassador Paz expressed generalized optimism on the course which events were taking in Argentina following the revolt. He mentioned specifically that such individuals as General Lucero[3] and Admiral Cornes,[4] both of whom he knew [and both of whom have served as Attachés in the US], have an appreciation of the importance to Argentina of relations with the US.

The Ambassador then turned to the Argentine Church–State issue in referring to the fact that Cardinal Spellman[5] was scheduled to deliver a speech on July 3, and in expressing concern that it might refer to the Argentine situation. Paz said that he knew the Cardinal personally and was considering approaching him on this subject, but had reservations as to what the press might make of it. He went on to say that he thought the situation was one in which any action would be better than none, and that he was consequently considering approaching the Vatican's Apostolic Delegate in Washington[6] to try to arrange a meeting with Cardinal Spellman. Mr. Holland agreed that a discussion with the Cardinal might prove useful, and suggested that an unpublicized meeting with the Cardinal away from the latter's office in New York might be indicated. Mr. Holland then went on to explain that the hands of the US Government were tied as regards any approach of this sort, since it would be inconsistent with our publicly stated policy of nonintervention in the Argentine situation for the State Department to approach Church officials on this same issue. The Ambassador indicated his appreciation of this fact.

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[1] Source: Department of State, Central Files, 735.00/6–2755. Limited Official Use. Drafted by O'Connor.

[2] These and following brackets are in the source text.

[3] General Franklin Lucero, Argentine Army Minister.

[4] Admiral Luis J. Cornes, Argentine Navy Minister.

[5] Francis Cardinal Spellman, Archbishop of New York.

Mr. Holland next told the Ambassador that he wanted to take advantage of his call to discuss several matters with him. He turned first to the subject of the press leaks on his appearance last week before the Latin American Subcommittee of the House Foreign Affairs Committee.[7] Mr. Holland explained that this had been a command performance to explain US policy toward Argentina in the light of recent developments and that he had had to postpone his travel to San Francisco to comply. He said that he had told the members of the Subcommittee in executive session that Argentina played a major role in the Hemisphere, that an earlier and different US policy toward that country had not been productive and that we were currently pursuing a constructive policy of friendliness and cooperation, and that, as regards the revolt, the Department still did not have enough information on which to base firm conclusions as to Peron's status. There were members of Congress present, however—continued Mr. Holland—with an interest in giving currency to what their Catholic constituents wanted to hear, and this accounted for the subsequent leaks to the effect that the State Department believed that Peron was on the way out. Ambassador Paz said that he understood the situation and was going to transmit appropriate comments to Buenos Aires.

Mr. Holland next referred to Argentine-Uruguayan relations. He said that he thought the Uruguayan Government had behaved with commendable tact and restraint in the aftermath of the revolt and that he had expressed the hope to Uruguayan Ambassador Mora that the latter's Government could continue to do so. Mr. Holland then told the Ambassador that it was likewise our hope that the Argentine Government would find it possible to avoid taking any steps growing out of recent developments which might complicate Argentine-Uruguayan relations from the other side, since the US viewed the improvement in those relations with satisfaction and hoped that it could continue. Ambassador Paz stated his agreement with Mr. Holland's viewpoint.

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[6] Archbishop Amleto Cicognani.

[7] Holland appeared before the Latin American Subcommittee of the House Foreign Affairs Committee on June 21. A statement entitled, "Notes for Statement to House Committee," drafted by Holland on June 20, is in Department of State, Holland Files: Lot 57 D 295, Argentina. Circular telegram 732, June 21, sent to all American diplomatic missions, summarized Holland's testimony. (*Ibid.*, Central Files, 611.35/6–2155)

The Assistant Secretary discussed as his final topic the subject of blocked profit remittances for US business interests in Argentina. Mr Holland described for the Ambassador the meeting which Ambassador Nufer had had with Peron and Gomez Morales on the morning of June 16, during which Peron had reconfirmed his commitment to permit profit remittances but Gomez Morales had insisted that these could not be begun until calendar 1956, when they would be authorized in two semi-annual increments.[8] Mr.Holland told the Ambassador that this proposed delay seemed to represent a departure from the Argentine commitment and posed problems for the US Government in dealing with the whole complex of US-Argentine economic relations. He pointed out that the US appreciates their dollar position and does not expect more than limited progress at this time, but that some tangible step in the immediate future was essential to enable the US Government to withstand US business pressure on this issue, and that waiting to spread remittances through 1956 was not satisfactory. Mr. O'Connor interrupted to report that, according to the latest information, the representative of Gomez Morales who was to discuss the terms of a letter of commitment on this subject had since been talking in terms of an 18 months' remittances spread, rather than the 12 months stated by Gomez Morales. In reply to a question by Mr. Holland, Mr. O'Connor confirmed that the Argentine arrangements with the UK provided for sterling remittances through a period begining early this year and ending June 30, 1956, during which period the British would prospectively have remitted the sterling equivalent of $5.3 million.

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[8] Ambassador Nufer reported this conversation to the Department of State in telegram 804 from Buenos Aires, June 23. (*Ibid.*, 811.05135/6–2355)

Ambassador Paz received Mr. Holland's remarks sympathetically, and said that he would write to Peron on this subject.[9]

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[9] Telegram 919 to Buenos Aires, June 27, reads as follows:

"Suggest in your discretion you inform Peron and Gomez Morales latter's remittance proposal June 16 Embassy's 804 not satisfactory and not considered fulfillment Peron's promise. Stress US does not expect full immediate settlement but it is essential to Department in its efforts further US economic collaboration Argentina in face pressure US business interests for tangible action that Argentina should initiate some system for remission profits which would begin promptly and not place US in embarrassing disadvantageous position compared UK through postponement beginning dollar authorizations to 1956. This particularly true in view proportionately small dollar outlay involved even when exchange difficulties taken account. Holland took foregoing line with Paz in meeting this afternoon and Paz undertook write Peron. In your discretion you might mention that since Argentine uprising it is all the more necessary for Department have at least token Argentine Action." (*Ibid.*, 811.05135/6–2355)

In telegram 840, June 29, Nufer responded in part as follows: "Gomez Morales and his associates obviously unhappy over enforced compliance Peron's commitment. Scarpati told Hopkins and Weaver Argentina could not afford any profit remittances while its exchange position so precarious, but that 'this is something Nufer has talked Peron into.' Under circumstances, it would, I believe, be inadvisable for me to tell Peron or Gomez Morales that latter's offer not fulfillment Peron's promise. President would almost certainly react unfavorably, especially under present circumstances." (*Ibid.*, 811.05135/6–2955)

John A. Hopkins was Counselor of the Embassy for Economic Affairs; Findley Weaver was the Financial Attaché.

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188. Telegram From the Secretary of State to the Embassy in Argentina[1]

Washington, June 30, 1955—5:09 p.m.

935. For Ambassador from Holland. Quite appreciate views contained your 840 and agree obvious undesirability pushing Perón to point endangering whole project.

Nevertheless, Dept extremely reluctant accept Argentine offer without further effort impress forcefully on Perón and Gomez Morales highly injurious effects delay in authorizing remittances might have on our relations. Highest circles of Argentine Government should be made fully aware recent revolt has focused U.S. opinion on these relations, and considerable body sentiment here is prepared support growing pressure U.S. business in opposing further economic cooperation with Argentine. In my view this pressure can be lessened, and Department's position justified, by prompt action on remittance problem by Argentines. As you know, the amount itself is of secondary significance; early public evidence Argentine good faith by announcement of plan under which remittances would begin in near future, and not six months hence, would be exceedingly constructive.

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[1] Source: Department of State, Central Files, 811.05135/6–2955. Confidential; Priority. Drafted and approved by Watrous.

As stated Deptel 919,[2] I have told Paz I regard timing feature of Argentine proposal unsatisfactory, and he subsequently informed me he had conveyed my views Perón. Particularly in light this development, request you reconsider whether this not the time persuade Perón of seriousness U.S. Government attaches this question.[3]

Dulles

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[2] See footnote 9, *supra*.

[3] In despatch 31 from Buenos Aires, July 7, the Embassy reported that, pursuant to instructions from the Department, officers of the Embassy discussed the remittance of earnings on U.S. investments in Argentina with Argentine officials on July 7. The U.S. representatives mentioned to the Argentines the figure of $5.3 million as a projected total for remittances to U.S. firms. "Agreement will probably be reached on the commencement of remittances in 1955," the despatch noted, "but it may be necessary to recede from $5.3 million as the amount." (Department of State, Central Files, 811.05135/7-755)

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189. Memorandum of a Conversation, Department of State, Washington, July 28, 1955[1]

SUBJECT

Argentine Developments and US-Argentine Economic Relations

PARTICIPANTS

Argentine Ambassador Hipolito J. Paz
Assistant Secretary Holland
OSA—James F. O'Connor, Jr

Ambassador Paz (who recently returned from a visit to Argentina) said that he had found the Argentine scene outwardly calming and the Church-State difficulties no longer a burning issue. He reported that he had had a meeting with Peron, whom he found optimistic as regards the course of Argentine political developments and as regards the prospects for his pacification policy, although with the realization that there were still difficulties in the way of carrying the latter through. Paz went on to say that the current attitude of the Radicals, Socialists, and Democrats (Conservatives) had taken a course adverse to US-Argentine relations, with specific opposition to the petroleum contract with the Standard Oil Company of California signed April 25, which is now encountering difficulties in Congress from extreme Peronistas as well as from members of the Radical opposition. The Ambassador said that he had a direct message from Peron for Mr. Holland in this regard, to the effect that Peron was firm in his intention to see the Standard of California contract approved by Congress and would put his shoulder to the wheel to achieve this. Paz added that the reports on the status of the legislation involving the petroleum contract from the legislators responsible for managing the bill were favorable as to its eventual approval, although there would have to be some modifications, more of form than of substance, in order to placate the opponents of the measure. Paz advanced it as his opinion that a significant difficulty arose from the inept translation of the contract into Spanish which cast some sections in unfortunate language.

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[1] Source: Department of State, Central Files, 411.35/7-2855. Confidential. Drafted by O'Connor.

In a memorandum of July 26 from O'Connor to Watrous, Dearborn, Lyon, and Holland, O'Connor recommended that Holland raise the issue of the interrelationship

(Continued)

Mr. Holland asked the Ambassador whether he had also had a chance to discuss the remittances problem with Peron. The Ambassador said he had and that Peron was fully committed to solution of the problem, but that Secretary of Economic Affairs Gomez Morales, with whom Paz had argued this matter, continued to maintain shortsighted opposition to a fully satisfactory solution. Mr. Holland said that failure to move forward on the remittances problem, which after all only involved a sum in the vicinity of $5 million, made it difficult for the State Department to support Argentine desires in such fields as additional surplus cottonseed oil, since the Department was faced with questions as to Argentine progress on US business problems in seeking additional US economic cooperation for Argentina. Ambassador Paz commented that the cottonseed oil problem was indeed a serious one for Argentina, and particularly because the Government was concerned over the political implications under present circumstances of being unable to satisfy domestic edible oil requirements. Mr. Holland referred to the important effect which concrete Argentine steps in authorizing remittances would have on

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(Continued)
of the remittances problem and the cottonseed oil question in this scheduled meeting with Ambassador Paz. He suggested that Holland "increase the pressure on the Argentines through a modified and tactful quid pro quo approach." (*Ibid.*, 811.05135/7–2655) Argentina had recently requested an additional 50,000 tons of cottonseed oil under Public Law 480.

the Department's ability to aid Argentina in other economic fields, bracketing remittances progress with approval of the Standard of California petroleum contract as significant items, but stating that favorable remittances developments would carry more weight in more quarters in the US in facilitating further US economic cooperation with Argentina. The Assistant Secretary went on to say that in no sense was Argentine action on the remittances issue the sine qua non to State Department assistance to Argentina in attempting to secure favorable consideration of its cottonseed oil desires, and that he was ready and willing to go to bat for the Argentine request irrespective of the remittances question, but that he could only do so under present circumstances without adequate ammunition for securing sympathetic attention to Argentina's needs. Ambassador Paz replied that he appreciated the situation and that a country could not expect to seek and obtain satisfaction of one request after another without displaying cooperation on its part, and that he would consequently prefer to point out to Buenos Aires that action on such matters as cottonseed oil would have to be preceded by Argentine action on the pending remittances issue. Mr. Holland said that he would leave himself in the Ambassador's hands as to any such message to Buenos Aires, but reiterated that he was not suggesting a quid pro quo approach and would not like that impression to be obtained in Buenos Aires.

. . . .

190. Editorial Note

In telegram 192 from Buenos Aires, August 24, Ambassador Nufer reported that he and Hopkins met with Gómez Morales at his request on August 22. During their meeting, Gómez Morales pointed out that while it would be impossible for internal political reasons to begin profit remittances to United States firms in 1955, the Argentine Government would agree in writing to equalize in all other respects the treatment of United States investors with that accorded the British under the Anglo-Argentine agreement. Argentina would guarantee a minimum of $4.2 million in profit remittances to United States firms. (Department of State, Central Files, 811.05135/8–2455) According to notes of a Secretary's Staff meeting, held on August 25, Holland discussed this development as follows:

"Mr. Holland recalled that it has been impossible for American firms to remit profits from Argentina since 1948 and that we have negotiated intensively with the Argentine Government to resolve this difficulty. He said Ambassador Nufer had just reported Argentine willingness to allow U.S. firms to remit $4½ million and that the problem now seemed to be on the way to a satisfactory solution." (*Ibid.*, Secretary's Staff Meetings: Lot 63 D 75)

On September 8 the United States Chamber of Commerce of Buenos Aires announced that the Argentine Government had expressed its willingness to authorize certain financial remittances for earnings on United States private investments in Argentina. On September 9 the Department of State issued a press release in which it noted its satisfaction with Argentina's action in this regard. For text of the press release, see Department of State *Bulletin*, September 19, 1955, page 462. The text of the Anglo-Argentine Trade and Payments Agreement, signed in Buenos Aires on March 31, 1955, was transmitted to the Department in despatch 915 from Buenos Aires, April 13. (Department of State, Central Files, 435.4141/4–1355)

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191. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Argentina (Nufer)[1]

Washington, September 6, 1955.

DEAR AL: The road ahead on U.S.-Argentine relations looks rather dark to me just now. Our accomplishments, past and prospective, as regards solutions of problems between the two countries, were brought about largely through more cordial relations with Peron himself. If he concludes that our attitude toward him is becoming less friendly, then he may refuse to go along with us on any further progressive steps and may even cancel out some that he has already taken. U.S. public opinion is so aroused against him just now, that it is going to be difficult for us to keep up the friendly gestures that, it seems to me, are necessary in order to keep him disposed to working with us.

If, because of the present state of public opinion in the U.S. we have to cool off in our relations with Peron, then we get, first, a state of concern in his mind, then one of resentment and, finally, a resumption of the unfriendly and uncooperative actions that created so much trouble for us a few years ago.

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[1] Source: Department of State, Central Files, 611.35/9–655. Secret; Eyes Only.

If we assume that the foregoing analysis is basically sound, then the first step toward avoiding the difficulties ahead of us is to bring about an improvement in U.S. public opinion toward Peron, an improvement that will permit us to continue the kind of friendly gestures that seem to have been so effective heretofore.

We are not going to get a more favorable public opinion unless the press adopts a more favorable attitude. The press is not going to do that unless the *La Prensa* problem[2] is solved. That brings us up against the question of whether we could engineer a solution of that problem.

It is conceivable that Peron would be willing to give *La Prensa* back to Gainza Paz[3] if the latter would agree that he would not openly attack Peron. It seems to me, that an agreement to support Peron would be unnecessary. A commitment not to attack him might do the trick. Rumors have reached me at this end that Gainza Paz might be willing to make such an agreement. I want to emphasize that these are only rumors, are entitled to little or no credence, and have nothing to do with the suggestions set out in this letter.

If the objective of a return of *La Prensa* in exchange for a commitment to desist from attacking the government is worth a try, then the question becomes how to make the try. I have thought of an approach through "cut outs" direct to Gainza Paz. Better than that, it seems to me, would be an approach to United Press whose huge financial interest in their service contract with *La Prensa* would logically lead them to make every effort to persuade Gainza Paz to accept whatever conditions might be necessary to get back his paper. It seems to me, however, that the first approach should be made to Peron himself. If Gainza Paz and UP should agree to such a settlement and Peron should thereafter refuse it, we could safely predict an intensification of the present strong press attacks on Peron. On the other hand, if the first approach is to Peron and he rejects the proposal, the situation in the United States grows no worse than it is now.

If the first approach is to Peron, how can it best be made. I think Ambassador Paz would be glad to come home to discuss it with the President. However, we would have no assurance that he would present the idea either accurately or persuasively. Much better, it seems to me, would be for you to bring it up with Peron, if possible, in a personal conversation with no witnesses.

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[2] In April 1951 Perón closed the Argentine newspaper *La Prensa*. Relevant documentation on this matter is in *Foreign Relations*, 1951, vol. II, pp. 1079 ff.

[3] Alberto Gainza Paz, editor and publisher of *La Prensa*.

You could point out:

1. Our profound satisfaction at the improvement in relationships; the progress on a number of problems which we have been able to achieve; our very keen interest in continuing the present trend which is sure to bring benefits to both countries.
2. The recent church fight has given the U.S. press new ammunition to use in their ancient fight which is really provoked by the expropriation of *La Prensa.* These renewed and intensified press attacks are destroying the favorable public opinion which we have successfully been building up during the past few years. They are going to make it hard for our government to continue its policy of open, cordial cooperation with the government of Argentina. They caused us very real difficulties in the last Congress and we expect those problems to be even greater in the next Congress.
3. The President has successfully survived the June 16 revolution; his position seems strong, and this may be the best time for him to make a dramatic gesture which would have a strong impact on public opinion and, perhaps, on opinion in Argentina as well. Such a gesture, if made now, could not be interpreted as a sign of weakness.
4. It might well be that Gainza Paz, as a condition to return of his paper, would agree to abstain from attacks on the government. If the paper were returned the major factor behind the intense, long-term U.S. press attack on Peron would be removed.

I would be most grateful if you would meditate on the foregoing and let me have your views. If we decide to do something, it may well be that we can weave Lucero's visit into the pattern in a constructive way. Needless to say, I would much prefer to abandon this project if it involves excessive risks to the U.S. On the other hand, I am deeply concerned by the risks to us that seem inherent in the present situation.

With warmest regards and best wishes, I am

Sincerely,

Henry F. Holland[4]

P.S. If by great fortune we were able to work out the *La Prensa* problem we could then consider the possibility of an attack on the church problem.[5]

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[4] Printed from a copy which bears this typed signature.

[5] This postscript was handwritten by Holland.

192. Editorial Note

On September 16 elements of the Argentine Armed Forces launched a revolt against Perón. On September 19 Perón was forced to resign. He was replaced that same day by a provisional military junta. Despatch 228 from Buenos Aires, September 26, drafted by Siracusa and entitled "Peron Falls—The End of an Era," summarized these developments. (Department of State, Central Files, 735.00/9–2655) Additional documentation is *ibid.*, 735.00 and *ibid.*, Buenos Aires Embassy Files: Lot 64 F 71, 350, Revolt of Sept. 16, 1955.

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193. Telegram From the Ambassador in Argentina (Nufer) to the Department of State[1]

Buenos Aires, September 20, 1955—4 p.m.

305. Once truce negotiations are successfully concluded a definitive military junta (to replace present temporary one) will doubtless emerge and question recognition will arise. We believe US should be prepared recognize new government as soon as we have satisfied ourselves it has effective control, that it can maintain law and order, and will respect Argentina's international obligations. Without acting with undue haste, I believe we should be among first to recognize. If Department believes prior consultation with other American states necessary, it is hoped undue delay can be avoided. We would not want to follow European and especially Iron Curtain countries, while on other hand, earliest possible recognition would clearly demonstrate our positive policy toward Argentina was dictated by best interests both countries and not addressed to Peron or dependent on his continuance in power.

Although too early forecast new government's attitude toward US, especially as its composition as yet unknown, it doubtless will more than ever require economic help from US if it is to recover from present upheaval within any reasonable time. I believe this help should be forthcoming if new government policies make this at all possible.

While as previously said, final composition of new government not yet known, it can be assumed it will consist of high ranking military men probably representing both revolutionary factions most of whom until recently Peron supporters who received their high ranks and position under Peron regime. Such a junta would have to conduct affairs of state until elections can be called so that barring unforeseen developments junta will remain in power for months and perhaps even a year or more. The revolution at the outset, therefore, does not represent immediate shift of political power to opposition parties which have been espousing anti-US policies.

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[1] Source: Department of State, Central Files, 735.00/9–2055. Confidential; Priority.

Seems important recognize in this connection that revolution was in no sense uprising of civilians against government. It was a military split in which initially smaller group rebels, who represented discontent and opposition of large segment population, finally took action. Final outcome was determined by fact that other military units, not originally with the rebels, defected to them. Overt civilian opposition sentiment was not expressed until issue was decided at which time those opposed to government came into streets of Buenos Aires in large numbers to celebrate. Whether important civilian participation occurred in Cordoba we do not yet know. British Military Attaché's observations (Embtel 303)[2] suggest this was not case during fighting.

Above represents our preliminary views upon which we would appreciate the Department's observations.[3]

Nufer

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[2] Dated September 20, not printed. (*Ibid.*)

[3] At a meeting of the Secretary's Staff on September 22, Lyon discussed recent developments in Argentina as follows:

"Mr. Lyon reported on the Junta of four Generals and one Admiral which had come to power in Argentina. He said that he and Mr. Holland had met with the Business Advisory Group of the Department of Commerce yesterday and that senior executives of American firms with interests in Argentina are generally optimistic. He said that they expect certain difficulties over the next few months during the transitionary period but view the long-term future with relief." (Notes of the Secretary's Staff Meeting; *ibid.*, Secretary's Staff Meetings: Lot 63 D 75)

194. Telegram From the Acting Secretary of State to the Embassy in Argentina[1]

Washington, September 21, 1955—6:29 p.m.

275. Department foresees Lonardi[2] will be subjected pressures from Radicals, Communists and other domestic sectors seeking start new government on course of animosity or distrust toward US. Important Lonardi appreciate soonest strong desire US Government and people cordial relations with Argentina and willingness cooperate closely and constructively in economic, military, political and other fields. His awareness this may cause new government withstand these anti-US pressures which are sure to materialize.

. . . Lonardi should be encouraged make public statement soonest government's determination fulfill international obligations, determination combat international communism and disposition seek cordial relations with US and other American republics. Embassy should comment soonest . . . . Possibly simultaneous approaches in Argentina and through Ambassador Paz or Admiral Ibarborde[3] (whose contact Department has been reported) in Washington would be constructive. Reply soonest.

Hoover

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[1] Source: Department of State, Central Files, 611.35/9–2155. Secret. Drafted and approved by Holland.

[2] Major General Eduardo A. Lonardi, a member of the ruling military junta, was named Provisional President of Argentina on September 22.

[3] Jorge Pedro Ibarborde, Argentine delegate to the Inter-American Defense Board.

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195. Memorandum From the Under Secretary of State (Hoover) to the Secretary of State[1]

Washington, September 23, 1955.

This morning I called the President at the request of Mr. Holland and with the concurrence of Mr. Phleger,[2] regarding recognition of Argentina.

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[1] Source: Department of State, Central Files, 735.00/9–2355. Secret.

[2] Herman Phleger, Legal Adviser of the Department of State.

I explained to the President that we were now satisfied that the new government had de facto control of the country and that, assuming they agreed to the assumption and discharge of their international obligations, we believed that all of the prerequisites for recognition had been complied with.

The President asked me if the new government had given indication of its attitude on such matters as freedom of the press, and I told him of the nationwide broadcast made by the provisional President last night, in which he had made a firm pledge along such lines.

I explained further to the President that Uruguay had already recognized the new government and that we wished to be in a position of acting quickly so that there could be no adverse propaganda against us from hostile minorities in Argentina. I explained that we were wiring all of our Ambassadors in Latin America instructions of how to approach the respective Foreign Offices, and the method of advising them of our intentions. When we decided to effect recognition we would then call all the Ambassadors by telephone and instruct them to proceed along the lines of the cable. We anticipated that recognition would be effected sometime during the afternoon of September 24.

I explained further to the President that this was a matter which constitutionally required his action, and that I was verbally requesting permission to effect recognition, to be confirmed by the proper documents in due course.

He advised me to proceed along the lines I had outlined.[3]

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[3] On September 25 the United States extended recognition to the new Argentine Government in a note delivered to the Acting Argentine Foreign Minister, Commodore Julio C. Krause, in Buenos Aires by Ambassador Nufer. Barnes summarized the recognition process in a memorandum to Colonel Andrew J. Goodpaster, Staff Assistant to the President, dated October 17: "Extension of recognition was in answer to a request from the new Argentine Government to recognize, and was based upon our belief that all of the prerequisites for recognition had been complied with, that is, we were satisfied that the new Government had de facto control of the country and was willing and able to meet its international obligations and commitments." (Eisenhower Library, White House Central Files)

196. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Lyon) to the Secretary of State[1]

Washington, October 7, 1955.

SUBJECT

Motives of the Argentine Revolution

The following is a summary of an Embassy, Buenos Aires telegram analyzing the motives of the recent revolt in Argentina.[2]

The Embassy believes that there was no single motivation, but a complex of forces which prompted the revolt. While it concedes that it is as yet too early to ascertain the specific motives with any precision, it suggests four factors as playing an important part in building up sufficient steam to overthrow Perón:

1. *Desire for a Change.* Coupled with the fact that any government becomes shop-worn after a long period of rule, was a growing disaffection and uneasiness over the trend of the Government's program as time went on. Perón rode to power in a crusade to correct certain social and economic inequities. As these objectives were achieved and new ones undertaken, many supporters fell away either out of lack of interest or because of other phases of his program. The serious moral let-down during the latter period of Perón's rule–marked particularly by a drive for more and more absolute power, abolition of many civil liberties, perversion of schools, and a growing belief of the existence of widespread corruption–increased the numbers and force of those who felt Argentina could not indefinitely support this type of a government, and who at first no longer supported the government and later deeply and bitterly opposed it.

2. *Church–State Conflict.* Perón's attack on the position and prerogatives of the Catholic Church, but more especially the methods he employed, struck a chord which aroused deep distrust of Perón and uneasiness in that Catholic nation. The Embassy believes that if there was any one immediate cause of the revolt and the abortive June 16 attack it was the Church matter, which acted as a catalyst bringing to a head latent dissatisfaction and desire for a change, coalescing the opposition around a popular issue and undermining Perón's own political and military supporters who now had their loyalty divided.

3. *Uneasiness in Armed Forces.* The Argentine Navy was long known to be anti-Perón, but it was small and if kept isolated its chances of successful revolt were remote. The Air Force was likewise uneasy but strongly loyal to its leaders who kept it in line. The

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[1] Source: Department of State, Central Files, 735.00/10–755. Confidential. Drafted by Vaky. A handwritten note on the source text by Barnes indicates that the Secretary was informed of the contents of this memorandum.

[2] Telegram 405 from Buenos Aires, October 5. (*Ibid.*, 735.00/10–555)

Army was much more Perón's instrument and moulded to his use by identification of high-ranking officers their position and prerogatives with the regime, and by identification of non-commissioned officers and many regular soldiers with his social reforms. Loyalty to military tradition, however, and distaste for the Church conflict made it impossible for increasing numbers to follow Perón blindly. Officers retired by Perón for one reason or the other were able to exploit this discontent particularly among intermediate level officers. More recently, Perón's projection of labor into the arena with intimations in August that the labor organizations might be made into a sort of civilian army, prompted even some of the higher echelon officers still in the service to the conclusion that they had had enough. Thus even they were ready to defect to the rebels, which more than anything else determined the final outcome after the revolt had been set in motion by numerically inferior forces.

4. *Weakness of Controlled Labor Movement.* The danger of a general strike or mob violence by some elements of labor had long been a weapon in Perón's hands. Why the labor unions were not mobilized when the crisis came is still a mystery and was part of the paralysis which seemed to grip Perónista leadership during the revolution. The Embassy suggests that the answer may lie in the fact that the labor movement seemed to have lost much of its vitality with time and as a result of imposition of leadership and control from above without real rank-and-file participation. It also appears that loyal army leaders, who had no love for labor as an organized force, assumed complete control of the government's defense. In any case, the rebel military leaders were ready and willing to cope with a labor threat if it developed.

The Embassy states it has never considered the oil contract with Standard of California, which was awaiting approval by Congress, as a cause of the revolution or an important factor in its success, although there have been rumors that opposition to it motivated Army desertion of Perón. The Embassy states that at least some of the higher military officers favored the contract, and it strongly doubts that any considerable portion of the Army, if indeed any at all, defected because of a conviction that Perón would press for its approval. The Embassy also points out that President Lonardi, by his own account, began active opposition to Perón and to organize his overthrow several years before the contract was signed.[3]

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[3] In a letter to Holland, September 28, Nufer reported that Lonardi stated publicly that the oil contract would be rejected. The letter reads in part as follows: "It is unfortunate that Lonardi thought it necessary to commit himself about the contract so early in the game. I can only assume that pressure from nationalist elements and perhaps even from his associates in the armed forces, must have been very strong. . . . I am afraid that for the time being petroleum is a dead issue and I doubt the provisional government will be inclined to revive it even in the event it should later on consider itself strong enough to do so." (*Ibid.*, Holland Files: Lot 57 D 295, Argentina)

197. Editorial Note

On November 13 Major General Pedro Eugenio Aramburu replaced Lonardi as Provisional President in a bloodless coup d'état. At the Secretary of State's Staff meeting on November 15, Holland discussed the new Argentine Government:

"Mr. Holland said the new group that had come to power in Buenos Aires was more acceptable to the US than the Lonardi régime and that the political trend there was good. He said the Peronistas are trying to cause economic paralysis and bring down the new government but that he believes this attempt will fail." (Notes of the Secretary's Staff Meeting; Department of State, Secretary's Staff Meetings: Lot 63 D 75)

At a meeting of the National Security Council on November 15 Director of Central Intelligence Dulles discussed recent developments in Argentina during his briefing on significant world developments affecting United States security. According to a memorandum of that discussion, drafted on November 16 by Gleason, the discussion went as follows:

"With respect to developments in Argentina, Mr. Dulles stated at the outset that his proposed comments had been gone over by Assistant Secretary of State Holland, who had encouraged Mr. Dulles to report at some length to the National Security Council on the financial and economic difficulties which Argentina was facing. Mr. Dulles then went on to explain that the Acting President, Lonardi, had just been deposed in a bloodless coup d'état by the armed forces, spearheaded by a group of young officers. This group feared that Lonardi was too dependent on reactionary ecclesiastical and nationalist elements in Argentina. Mr. Dulles predicted that a junta form of government would continue in Argentina for some time, and that further trouble was quite possible before affairs finally settled down.

"Thereafter, Mr. Dulles presented a brief review of the financial and economic difficulties which were going to confront any regime in Argentina. The Lonardi government had taken a few courageous steps to correct these difficulties, but prospects for the future remained far from encouraging. Mr. Dulles predicted that Argentina would look to the United States for aid in its financial difficulties, and would wish to discuss Argentine economic problems both with our Embassy in Buenos Aires and with the American authorities in Washington. The United States Ambassador in Buenos Aires had informed the State Department of his belief that American economic assistance would be essential if Argentina was to recover its stability in any reasonable time." (Eisenhower Library, Whitman File, NSC Records)

The Embassy in Buenos Aires reported the change of government to the Department in despatch 380, November 17. (Department of State, Central Files, 735.00/11–1755) Lyon summarized the despatch in a memorandum to Hoover, dated November 25. (*Ibid.*, 735.00/11–2555)

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198. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, November 15, 1955.

SUBJECT

For Conversation with Treasury regarding Argentina

Discussion:

The Minister of Economy of the Lonardi Government, Dr. Cesar Bunge, when he was in Washington last week, confirmed that his Government was eager for U.S. credits. He said their most pressing problems were (1) a backlog of short-term commercial obligations of about $400,000,000; (2) conversion of its highly-regulated economy based on barter agreements into a free economy attractive to foreign capital; and (3) the development of the energy resources and transportation facilities needed for overall economic development. He said that his Government's program for meeting these problems would depend on the amount and kind of help the U.S. would be willing to give.

Since that time the Lonardi Government has been replaced by the Government of Major General Aramburu. The economic situation has not, of course, changed, and there are no indications that the new administration will not be as pro-U.S. and as eager as the former for United States cooperation.

These problems will undoubtedly be raised during the visit Sam Waugh[2] and I will be making to Buenos Aires during November 30–December 2.[3] What we say there could influence the new Government's attitude toward the United States and the implementation of its economic policies. I believe that this is a unique opportunity for the establishment of United States-Argentine relationships on a cooperative and mutually-beneficial basis which we should not allow to go by default.

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[1] Source: Department of State, Central Files, 835.10/11–1555. Confidential. Drafted by Bernbaum. Copies were sent to Murphy and Prochnow.

[2] President of the Export-Import Bank.

[3] The trip to Argentina was part of a larger visit to five South American nations, November 17–December 3.

Recommendation:

I recommend that we be authorized to speak in such a manner as to demonstrate U.S. sympathy and willingness to discuss these problems promptly with a view to such financial help as fits our policies and the facts as we find them. Naturally, should any obstacles to U.S.-Argentine cooperation develop between now and then this authorization need not be utilized.

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199. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, November 17, 1955.

SUBJECT

Argentine problem and US policies regarding it

Discussion:

Whatever Argentine government survives will be faced with the problem of reconstructing the national economy. It will call upon the United States for economic and military assistance. Its requests will probably be excessive, poorly documented and hysterical.

We should respond to these requests generously and constructively; but our response should be consistent with our announced policies; and we should only aid programs that have maximum prospects for a successful reconstruction of the Argentine economy.

While it is too early to say exactly what approach the new government will take to its economic problems, it would not be illogical to expect it to succumb to the temptation to request grant aid and soft loans. We should scrutinize any such requests most carefully.

We must remember that a number of European states and, perhaps, Russia will be glad to extend aid to Argentina, hoping to build up their own prestige and attain an advantage in future trading.

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[1] Source: Department of State, Central Files, 835.00–TA/11–1755. Confidential. Also addressed to Hoover. A notation on the source text indicates that "Prochnow concurs on assumption that discussions under point 2 are solely exploratory and no commitments made."

When Sam Waugh and I are in Buenos Aires, the Argentines will raise questions of US assistance with us. We can explain clearly our policies and intentions.

It seems to me that we should make the following points:

1. The United States is prepared to extend generous financial and military assistance to Argentina.
2. The amount and nature of our assistance will be consistent with our policies as they have been announced on many occasions.
3. Our economic assistance will be given only to programs which we believe will contribute effectively to the reconstruction of the Argentine economy. We have no desire to impose our thinking on the Argentine Government, but we do want them to understand that we will extend aid only where we feel that it will succeed and will not be uselessly dissipated.
4. The overwhelming responsibility for achieving national reconstruction must rest on the shoulders of the Argentine Government and people; that we feel reconstruction will require a substantial period of time, and is not an end that can be achieved over night.
5. We feel the most rapid and constructive approach would be for those aspects of the Argentine economic program in which we are asked to help to be discussed between technicians representing our two Governments; that such discussions can begin immediately either in Buenos Aires or in Washington.

Recommendation:

1. That the appropriate Department heads or inter-Departmental agencies of our Government make at this time the policy decision that when the conditions for extending aid which are outlined above are satisfied our Government will:

a. Extend such economic aid as at that time seems appropriate.
b. Extend such military aid as at that time seems appropriate and not productive of a harmful effect on the economy.

I suggest that this policy decision be made now in order that, when and if the conditions outlined above are deemed to be satisfied, we will not find ourselves then hampered by the necessity of seeking the initial policy decisions indicated here.

2. That the group which is visiting Argentina be authorized to discuss fully with Argentine Government officials all aspects of their present difficulties, and that we be authorized in the course of those discussions to indicate the desire of the United States Government to help generously, but under the terms and conditions outlined in this memorandum.

200. Memorandum From the Under Secretary of State (Hoover) to the Secretary of State[1]

Washington, November 24, 1955.

Before Mr. Holland left on his extended tour of South America with Mr. Waugh of the Eximbank, he talked with me on the substance of the two attached memorandums regarding economic and military aid to Argentina.[2] The memorandums were not received in my office until after Mr. Holland had departed.

I advised Mr. Holland that I did not believe we should be in the position of giving the Argentines a blank check on economic aid as might be construed from conclusions 1, 2, and 3 of his memorandum of November 17. Furthermore, I did not believe that we should adopt a basic policy of aid to Argentina as outlined in his Recommendation 1.a. until all the facts were at our disposal.

I suggested, therefore, that while Mr. Holland should adopt a sympathetic attitude toward the Argentine Government during his meetings with them, his commitments should be restricted to inviting them to a fact-finding conference at which all of the circumstances might be reviewed. This conference should preferably take place in Washington after the Argentines had had an opportunity to assess their position and gather all the facts regarding their economic predicament.

With regard to the military aid, it was my suggestion that the Defense Department should send someone to Buenos Aires to meet with the Argentine military authorities, this to coincide with the visit of Mr. Holland and Mr. Waugh. I reviewed this situation with Gordon Gray and suggested he might want to consider having General Erskine[3] undertake this mission. Mr. Gray was cooperative and said they would take it under immediate advisement in the Defense Department.

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[1] Source: Department of State, Central Files, 835.00–TA/11–2455. Confidential.

[2] See Document 198 and *supra*. No memorandum of Holland's conversation with Hoover has been found in Department of State files.

[3] General Graves B. Erskine, USMC (ret.), Director of the Office of Special Operations, Department of Defense.

201. Despatch From the Ambassador in Argentina (Nufer) to the Department of State[1]

No. 437 *Buenos Aires, December 9, 1955.*

SUBJECT

Report on Holland Group Visit

[Here follow a list of the members of the Holland–Waugh party, which arrived in Argentina on November 30 after completing a brief trip to Chile, and discussion of the party's schedule and certain protocol matters.]

Economic

The touchstone of the Holland group visit was, of course, economic, and the question of possible US financial assistance to the new Argentine Provisional Government occupied a large portion of the brief visiting time. Messrs. Holland and Waugh held two formal discussion sessions with Argentine economic officials headed by the special Economic Adviser, Dr. Raúl Prebisch, and in addition participated in informal exchanges of views with representative groups of prominent American and Argentine members of the local business community. Several specific problems in U.S.-Argentine economic relations were additionally the subject of interviews with interested businessmen and brief discussion with the Argentine authorities.

The net results of these various talks were constructive in a general and exploratory fashion. The Argentines made no specific requests beyond that for signing of the already approved Eximbank $60 million credit for the Argentine Steel Project. The possibility of some form of US financial assistance to assist Argentina in overcoming her present economic plight was of course raised in general fashion by the Argentine side, although no specific prospective figure was presented by the Argentines. It was agreed (and apparently most specifically confirmed in a final conversation between Mr. Holland, Dr. Prebisch and Finance Minister Alizon García on which the Embassy lacks full details) that the US Government would send a special representative to Buenos Aires in the near future to follow up discussions more concretely. The possibilities of technical assistance were explained upon Argentine request.

In sum, the U.S. representatives listened sympathetically, asked questions, agreed to further exploration of the Argentine financial problem, but left Buenos Aires without commitment, except for formal signature of the already approved Eximbank steel credit if the Provisional Government so desires. The U.S. official group obviously left behind them an aura of optimism for the Argentines to savor, however, and it is the Embassy's opinion that the Aramburu Government derived the overall impression from the visit that the United States is prepared to advance as much credit for sound Argentine projects (in addition to the steel project) to improve the Argentine economic position as Argentina will be in a position to repay in dollars within a reasonable banking period.

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[1] Source: Department of State, Central Files, 033.1120/12–955. Secret. Drafted by James F. O'Connor, Jr., Second Secretary of the Embassy.

A detailed report on the matters covered in the first and longest formal economic session during the morning of December 1 is attached (Enclosure 4).[2] During this meeting the Argentine financial situation and the Provisional Government's policy for coping with it was explained. Dr. Prebisch stated that the restoration of agricultural production was the key to Argentine economic recovery, and outlined other pressing economic problems as having to do with transportation, energy, and the importation of essential machinery and equipment. The expansion of CADE's Buenos Aires power facilities, the American & Foreign Power Company's unresolved Argentine difficulties, U.S. sanitary restrictions on importation of Argentine meat, the possibility of Argentina's joining the World Bank and International Monetary Fund, and current Argentine labor policy were among the topics discussed in the general give and take of ideas. Mr. Holland made a forceful restatement of official U.S. views on the role of private enterprise.

The Eximbank loan for the San Nicolas Steel Project was the principal topic for discussion at the supplementary meeting with the Argentine economic group during the morning of December 2 (Enclosure No. 5). It was agreed that the formal contract could now be signed on the basis of the existing Argentine presentation, but it was pointed out by Mr. Waugh that departure from present Argentine plans in the direction of making additional steel equipment purchases in the United States would require reexamination of the whole matter because of a change in dollar repayment ability factors. [Brigadier General Pedro Castiñeiras, President of the Argentine Mixed Steel Corporation who participated in the meeting, subsequently departed for Washington on December 5 to seek completion of contractual arrangements.][3]

Memoranda covering the round-table exchanges of ideas with prominent members of the American business community and with a larger representative Argentine private economic group are also attached (Enclosures No. 6 and No. 7). The most pressing specific point brought up at the U.S. Chamber of Commerce function was the alleged inequity of the Provisional Government's intention to levy a surcharge on imports equal to the difference between the old [7.50] and new [18.00] official dollar exchange rates. A spokesman at the meeting with Argentine businessmen listed the country's principal problems as 1) petroleum and electric power shortage, 2) transportation deficiency, and 3) need for a basic iron and steel industry. Industrial machinery import needs for modernization were stated as totalling at least $500 million. Mr. Holland referred to U.S. disposition to cooperate wherever possible in all phases of the Argentine economic reconstruction program, explaining that such cooperation could best be applied in three fields—commerce, finance, and technical assistance, and advanced U.S. views on the encouragement of private enterprise. Mr. Waugh explained the Eximbank's functioning and expressed the hope that it could be useful to Argentina, although pointing out its policy limitations in the petroleum field.

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[2] None of the 15 enclosures to this despatch is printed.

[3] These and following brackets are in the source text.

The matter of the surcharge differential on import costs was also brought up in a special interview with Mr. Holland by officials of the Lone Star Cement Company and its Argentine subsidiary, but a subsequent discussion of this issue by Mr. Holland with Dr. Prebisch and Finance Minister Alizon García did not give promise of any relief for the American firm as among the many adversely affected by the Government's exchange reform action (Enclosure No. 8). Other private interviews dealt with CADE's power extension project, with Mr. Waugh (Enclosure No. 9) and with the Argentine and Uruguayan operation problems of the Swift meatpackers, with Mr. Holland (separately reported in Despatch 441, 12/9/55).[4]

The Embassy is not informed as to all the details of Mr. Holland's discussion with Dr. Prebisch and Finance Minister Alizon García just prior to leaving on December 2.

Political and Military

Mr. Holland had the opportunity for an informal exchange of specific views with President Aramburu during the course of the reception at the Embassy Residence the first evening of the visit, November 30 (Enclosure No. 10). During the course of this talk the Argentine President indicated that his Government would adhere at the first feasible opportunity to the anti-Communist resolution passed at the Caracas Conference over Argentine abstention,[5] stated his belief that the sometime Argentine-espoused "Third Position" was a silly fiction, and confirmed the present Government's consideration of a law outlawing the Communist Party, which Mr. Holland applauded. The Assistant Secretary also commented on the advantages to Argentina of Ambassador Nufer's continued assignment to Buenos Aires—in which Aramburu stated his concurrence—touched on the favorable effect of the return of *La Prensa* to its owners, and pointed out that the U.S. Government would necessarily move with deliberation on the matter of possible economic assistance to Argentina. The President stated his understanding of this last-cited fact.

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[4] Not printed. (Department of State, Central Files, 835.311/12–955)

[5] A reference to Resolution XCIII, "Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism," approved on March 28, at the Tenth Inter-American Conference which met at Caracas, March 1–28, 1954. For text, see *Tenth Inter-American Conference:*

At a private appointment on December 2 with Vice President (Rear Admiral) Rojas, made at the latter's request, Rojas raised with Mr. Holland and Ambassador Nufer the Argentine Navy's desire to purchase equipment from the United States, particularly an aircraft carrier, emphasizing the differences in basic outlook between the Argentine Navy and Army which argued for assistance to the former in support of the present Government. Mr. Holland pointed out the difficulties involved in the sale of a carrier, but advanced as a purely personal and tentative idea the possibility of seeking Congressional approval for the loan of carriers to friendly governments, these to be returned in case of war. Admiral Rojas agreed that this might be feasible in Argentina's case, but only, for domestic political reasons, in the absence of any corollary commitment to enter a future conflict on the U.S. side. To allay President Aramburu's surprise at the Rojas–Holland–Nufer meeting when these three emerged from a private hotel room to join the President for lunch, the Assistant Secretary found it advisable to refer to the general tenor of his conversation with the Vice President during the luncheon. Aramburu, who is of course an Army Major General, interrupted Mr. Holland's explanation at the mention of an aircraft carrier to say that this was not needed, since what Argentina basically required was assistance of a financial nature. The President subsequently made the same comment with regard to equipment for a Marine regiment, stating his belief that all of these matters should be considered in connection with a general program of financial assistance (Enclosure No. 11).

Following a luncheon given for General Douglass[6] on December 1 by the three Armed Services Ministers, General Douglass participated in an informal meeting with the Argentine Air Minister, Brigadier (Brig. Gen.) Ramon A. Abrahin, at the latter's request, at

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Report of the Delegation of the United States of America with Related Documents (Department of State Publication 5692, Washington, 1955), pp. 156–158. For documentation on the Conference, see *Foreign Relations,* 1952–1954, vol. IV, pp. 264 ff.

[6] Major General Robert Douglass, Jr., Chairman of the U.S. Delegation, Inter-American Defense Board.

which were present Commodore Julio C. Krause, Deputy Air Minister, and Brigadier Mayor (Maj. Gen.) Gustavo Hermansson, Commander-in-Chief of the Argentine Air Force and two other high ranking Air Force officers. General Abrahin and his colleagues pointed out to General Douglass that Argentina was desperately in need of equipment, particularly planes, necessary to carry out obligations under the Rio Pact[7] and adequately perform its mission of assisting and maintaining internal order. Emphasis was placed upon transport aircraft and jet replacements, at reduced prices which Argentina could afford to pay. Mention was also made of the desirability of obtaining training opportunities in the United States for Argentine pilots and technicians. General Hermansson made the direct suggestion that the return of the U.S. Air Force Mission, whose contract was not renewed upon its termination in 1951, might be desirable for Argentina. General Douglass suggested that the Argentines pursue their requests through formal channels, and offered his assistance in securing their speedy consideration in Washington. (Enclosure 12)

Press and Public Relations

Mr. Holland held a press conference shortly after arrival (Enclosure No. 13) and subsequently taped an interview for use on the USIS program "Panaorama de America" on Radio Splendid (Enclosure No. 14). He also gave brief interviews as requested to *Time-Life* and UP correspondents. News and editorial coverage of the Holland group mission, both pre- and post-visit, was substantial and has been reported separately by USIS (USIS Despatch No. 74, 12/5/55).[8] As was to have been expected, constructive coverage was paralleled by some unfriendly comment in general and political organs reflecting the Intransigent Radical, the Socialist, and of course the Communist viewpoints. Mr. Holland was the target of Communist leaflet and wall-slogan activities, and of a small one-man demonstration outside the USIS following his first-day press conference (Enclosure No. 15).

Embassy Matters

Limitations of time precluded any detailed discussion of Embassy operational problems with Mr. Holland and his associates, but several of the more important were taken up briefly as the opportunity presented.

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[7] A reference to the Inter-American Treaty of Reciprocal Assistance, commonly called the Rio Pact, signed at Rio de Janeiro on September 2, 1947, by the representatives of the United States and 18 Latin American countries. It was ratified by President Harry S. Truman on December 12, 1947, and entered into force on December 3, 1948. For text, see 62 Stat. 1681.

[8] Not printed.

Comment: As the Embassy has already reported (Weeka No. 47, 12/7/55),[9] it considers the visit of the Holland group to Buenos Aires to have been a substantial success from both the US and Argentine points of view. Follow-up results in the various fields of US-Argentine cooperation explored in brief during the visit will, of course, determine the long-range weight to be assigned it by each country.

For the Ambassador:
James F. O'Connor, Jr.
Second Secretary of Embassy

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[9] Not printed. (Department of State, Central Files, 735.00(W)/12-755)

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202. Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, December 12, 1955.

SUBJECT

Note on Problems in Countries Visited

Argentina

1. *Export Import Activities*—The government accords top priority to its application for a loan to expand the steel mill. It would like to change the underlying expansion program in order to contemplate acquisition of all the necessary equipment in the United States. The Bank replied that this would make necessary a complete review of the application. The Government obviously did not want that, and agreed to commit itself to the existing program unless some change therein were approved by the Export-Import Bank.

Dr. Prebisch stated firmly that the Government was determined not to incur dollar obligations in excess of its ability to support them.

2. *General United States Assistance to the New Government*—It was agreed that we would send to Argentina one or more technicians to check the figures on economic conditions and government programs

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[1] Source: Department of State, Central Files, 110.15-HO/12-1255. Secret. Copies sent to Waugh, Atwood, Douglass, Harley, Corbett, and Bernbaum.

with representatives of the Cabinet. Thereafter, Argentina would send a group of well prepared technicians to the United States to outline here the Argentine Government's program for economic rehabilitation and the assistance that they would like to receive from the United States.

3. *Request for Arms*—It was discovered that while the Navy urgently wants to purchase additional arms from the United States, the President who speaks for the Army opposes these applications. Conversations on this subject are separately reported.[2]

4. *ICA Activities*—The Government expressed strong interest in obtaining ICA programs, particularly in the field of agriculture and ranching. It is also interested in exchange of persons.

5. *Argentine Participation in the International Bank and the International Monetary Fund*—Representatives of Argentina said that the Government has under active consideration participation in the IBRD and the IMF and that it will probably join these two organizations.

6. *Communism*—The President of Argentina said that it was his intention to seek an early opportunity for Argentina to ratify the Caracas Resolution. He expressed a desire for United States assistance in intensifying Argentina's anti-Communist activities. This conversation has been separately reported.[3]

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[2] Apparently a reference to despatch 437 from Buenos Aires, *supra.*

[3] *Ibid.*

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203. Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, December 12, 1955.

SUBJECT

United States Policy Towards Aid to Argentina

The Argentine Government is quite clearly going to ask for rather extensive aid from the United States both in the economic field and the military field. This memorandum is concerned with aid in the economic field.

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[1] Source: Department of State, Central Files, 735.5–MSP/12–1255. Confidential. Copies sent to Waugh, Douglass, Harley, Atwood, Corbett, and Bernbaum.

There are factors which would weigh in favor of and against our extending any substantial economic assistance to the new Argentine Government.

Those Factors Which Would Weigh Against Such Assistance

1—Argentine agriculture is generally competitive with that of the United States and assistance from us to strengthen her agriculture could be construed as harming the interest of our own farmers. This argument does not, of course, apply to assistance to the Argentine ranching industry which is not competitive with ours.

2—Argentina's dollar income is traditionally far below her dollar expenses. While the pound sterling was convertible, she used sterling to cover the gap. Until sterling again becomes convertible, it will be difficult for her through her foreseeable dollar earnings to service any large dollar indebtedness.

3—The obvious distrust between representatives of the Navy and Army in the new Argentine Government creates the possibility that the present Government may not endure and that we may soon find ourselves dealing with some successor government.

Factors Weighing in Favor of Aid to Argentina

1. Argentina is one of the strongest, most mature and economically developed countries of Latin America. She has a long tradition of aloofness and suspicion towards the United States. She now frankly asks for United States assistance and offers to cooperate closely with the United States. A generous response from the United States may well bring about a relationship between the two countries unlike anything that has ever existed before, a relationship which will strengthen the United States' position, not only in Argentina, but throughout Latin America. Failure of the United States to respond generously will almost surely drive Argentina further into her traditional attitude referred to above.

2. The present Argentine government appears to be dominated by people who are wholeheartedly devoted to the private enterprise system and to those governmental economic principles which we support in the United States. If we strengthen this group by generous assistance we may well insure that Argentina will abandon the state interventionist theories with which she has experimented and frankly follow the private enterprise system. Such a turn of events in Argentina would exert a powerful influence on a number of other governments of South America.

3. This Government has made strong representations on Communism. It proposes to adhere to the Caracas Resolution and to follow a vigorous program to stamp out the Communist conspiracy. If it does, in fact, follow this course the importance to our hemi-

spheric anti-Communist program will be great. Adherence to the Caracas Resolution will leave Mexico as the only Latin American state which has not subscribed to the Resolution. Such a situation may become intolerable to the Mexican Government. If the Argentines really atack Communism, the repercussions in Chile, Bolivia, Brazil, Uruguay, and Paraguay will be important. It could lead the way for a major and permanent setup to Communism in South America. The Communists recognize this danger and are attacking the United States with an intensity that I have not seen elsewhere in Latin America.

4. The present Government, while Catholic, follows a line of temperance and tolerance which if continued will probably mean a minimum of religious difficulties with Argentina in the future.

5. Argentina's present dollar earnings will not enable her to service large dollar loans; however, her economy is one of the strongest in the hemisphere. As she reestablishes her former position of importance her ability to carry loans will inevitably improve. Likewise, when and if sterling becomes convertible, her ability to carry dollar loans will improve. Thus, it might be a mistake to judge Argentina's dollar debt carrying capacity by her present dollar income.

6. The United States Congress and public will almost surely be strongly inclined toward a generous program of economic assistance to the new Argentine Government.

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204. Telegram From the Ambassador in Argentina (Nufer) to the Department of State[1]

Buenos Aires, December 13, 1955—2 p.m.

659. The pressures on the revolutionary government which the Department foresaw in its telegram 275 September 21[2] have existed and continue to exist but there is general Embassy agreement that the provisional government which took over after September 16 revolution (first headed by Lonardi and now by Aramburu) has thus far resisted those pressures beyond our fondest hopes, is the friendliest toward US which has existed here for many years, and has

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[1] Source: Department of State, Central Files, 611.35/12–1355. Secret.

[2] Document 194.

demonstrated democratic convictions and purposes. Both factors—friendly disposition toward US and democratic orientation—have been relatively infrequent in Argentina history and do not have firm, deep roots. It, therefore, appears important and in our own best interests to help nurture this tender plant and do what we can ensure its continuance and further growth. The alternatives of a return to oligarchic government, resurgence of Peronism under whatever name, or rapid spread of Communism are certainly not reassuring and we should move promptly to do what we can to help forestall them.

We must be prepared for possible further changes of personalities, similar to change which forced Lonardi out and replaced him by another comparatively unknown general. Tendencies, however, are often more important than personalities and changes do not necessarily mean situation has worsened. There is reason to believe, in fact, that general tenor of government under Aramburu is better than existed under Lonardi. We may see further such changes; we should be prepared to take them in our stride and to carry through a consistent policy, provided changes do not mean success of one of the alternatives mentioned above. In particular, we must keep constantly in mind that our principal enemy is Communism and we must be sufficiently flexible to be able to support any government clearly prepared to carry torch against Communist ideology. In adopting policy of affirmative assistance we of course take calculated risk of (1) conversion of government to ultra-nationalist policy with anti-US bias, as would prospectively be case if intransigent radicals came to power or (2) development of some new form of dictatorship.

In light of present situation—10 years of dictatorship, when few people had opportunity to learn by experience art of governing—and in view many favorable factors which exist now, but which may not exist for long, I strongly recommend we promptly undertake policy of concrete assistance to Argentina, that it be followed through even in face of possible discouraging developments which may well ensue from existing circumstances. The successful visit of Holland group came at propitious time and further strengthened friendliness toward United States of those now in power, but feeling of let down will almost inevitably ensue unless we can take prompt steps to show we approve and support friendly disposition and democratic orientation which important elements of government have so clearly manifested. Specifically, I recommend for Department's consideration following policies to be pursued actively by US in immediate future:

Economic Aid

The San Nicholas credit remains open and it appears provisional government will take it up. However, this is tagged with Peron label and will do little to win additional support for revolution. I do not mean to belittle its future importance for Argentina and think we should do everything we can to see that project is completed quickly and efficiently; but it will, I am afraid, be of minor help to present government.[3] General public expects additional help and this must be forthcoming if government is to be effectively assisted maintain itself against many contrary forces. Therefore, Embassy recommends that when specific requests for credits received they be considered promptly and not only in light present Argentine ability to repay but that good credit record, future economic growth potential, and politico-security factors also be taken into consideration (as was seemingly contemplated by Department telegram 275).

Military

Argentine Navy is one of soundest, most stabilizing and democratic forces in Argentina; has been and remains unitedly behind revolutionary government. Through Vice President Rojas and its officer corps, it has consistently and actively supported democratic objectives of revolution. Navy has widespread popular support, especially among middle and upper classes and has shown itself willing and able assume responsibilities thus placed upon it. I believe, therefore, it is in our interest to supply on best possible terms equipment which has been requested through diplomatic channels for Navy. I recommend we take prompt steps to supply available material and that we move promptly on negotiations regarding substitutes for unavailable items. (All this is of course on assumption official government request for naval assistance will be maintained despite deprecatory attitude on its importance reflected by Aramburu in informal luncheon conversation with Holland.)

No requests from Air Force have yet been made but, if and when received, should be given prompt sympathetic attention. Air Force has certain tradition, although briefer in time and not so firmly fixed, with respect to separation of military career from politics and this should be encouraged. As raised by Argentines in talk with Douglass during Holland visit reestablishment US air mission is distinct possibility which we should of course promote.

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[3] The agreement in question, the Export-Import Bank loan of $60 million for construction of an Argentine steel mill, was signed in Washington on February 27, 1956, by representatives of the Bank and SOMISA. Bernbaum informed Nufer of the signing in a telephone conversation that same day. (Memorandum of telephone conversation by Bernbaum; Department of State, Central Files, 835.10/2–2756)

The question of army assistance impresses me as being longer term problem. It should be considered as one of main tasks of military survey team if such team established; I assume we will want to await Argentine initiative. We should however look forward to possible general military aid agreement and to re-establishment of military mission.

Embassy would appreciate receiving Department's instructions on any of these matters which should be followed up here. It would seem desirable I receive early indication Department's thinking on matters outlined above so initiative attained during Holland visit and as result of message to Lonardi (Embassy telegram 321 September 22[4]) will not be lost.[5]

Nufer

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[4] Not printed.

[5] In telegram 616 to Buenos Aires, December 16, the Department explained that it had been pleased to receive the Embassy's "thoughtful estimate" of the Argentine situation and concurred with the Embassy on the desirability for extending concrete assistance to the new government. The Department commented specifically on the Embassy's aid suggestions and pointed out that requests for military assistance should not be brought into discussions with the economic mission. (Department of State, Central Files, 611.35/12–1355) In a memorandum to Holland, also dated December 16, Bernbaum explained why OSA believed it was desirable that requests for military assistance not be combined with discussions on economic aid, stressing that any combined talks might serve to deepen the existing split in the new Argentine Government. (*Ibid.*)

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205. Editorial Note

On December 21 the United States and Argentina signed an agreement in Buenos Aires authorizing the sale to Argentina, through private United States traders, of 80,000 metric tons of edible oils and/or fats. The agreement, which provided for the sale of commodities valued at approximately $25.3 million, was concluded under Title I of P.L. 480. It was signed for Argentina by Luis A. Podestá Costa, Minister of Foreign Affairs and Worship; Julio Alizon Garcia, Minister of Finance; and Juan Llamazares, Minister of Commerce, and for the United States by Ambassador Nufer. For text, see 6 UST (pt. 5) 6077. Documentation regarding the negotiation of the agreement is in Department of State, Central File 411.3541.

206. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Deputy Under Secretary of State (Murphy)[1]

Washington, January 27, 1956.

SUBJECT

Distribution of Information on Argentine Relations Prior to Visit of Delegation

Discussion:

The Argentines will soon send to Washington a delegation which will explain the programs of the present government and will make specific requests for aid from the United States. We do not know just what requests they will submit.

I have no desire to prejudge requests not yet received; nor do I feel that we should adopt an attitude of willingness to accede to whatever requests the Argentines may make of us. However, I believe that it is constructive that the general nature and dimensions of the Argentine problem be understood by those people in our Government who will be dealing with matters raised by the Argentine delegation.

Recommendation:

I have prepared and attach a memorandum analyzing the present status and significance of our relations with Argentina. With your approval I would like to send it to Treasury, Commerce, Defense and the Export-Import Bank with an explanation substantially along the lines of this note.[2]

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[1] Source: Department of State, Central Files, 611.35/1–2756. Secret. The Bureau of Economic Affairs concurred in this memorandum. Copies were sent to Dulles, Prochnow, and Bernbaum.

[2] Murphy initialed his approval on the source text. Holland forwarded this memorandum to Gray, Overby, and Harold C. McClellan, Assistant Secretary of Commerce, on February 9, under cover of personal letters and to Waugh on February 15 under cover of a similarly worded personal letter. (*Ibid.*)

[Enclosure]

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland)

January 26, 1956.

SUBJECT

Present Significance of our Argentine Relations

Argentina is one of the three most important Latin American countries, the other two being, of course, Brazil and Mexico. Never have our relations with Argentina been in so delicate a state as they are today. Their conduct in the immediate future will determine for years to come the nature of our relations with Argentina; will profoundly affect our relations with other South American countries, and will be a major factor in our campaign against Communism throughout South America.

Argentina's traditional attitude toward the United States has been suspicious, aloof and competitive. There are several reasons. Their economy is basically strong and considerably industrialized. It is competitive with our own in the agricultural field which is the origin of Argentina's principal exports. This has meant competition with us in world markets and inability to finance a large volume of imports from the United States.

The Argentine army has been German-trained for many years. This has made it a factor weighing against good relations with the United States.

The factors above have caused considerable anti-United States sentiment among the upper classes of Argentina. During a substantial part of the ten-year Perón regime the Government encouraged anti-United States feeling among the working classes, thus extending considerably the base of hostility toward the United States.

In the last two years of the Perón regime his enemies accused the United States of excessive friendliness to the existing Argentine government. Considerable pressure was exerted on us in the United States and by anti-Perón elements abroad to adopt a policy of hostility to the Perón regime. We followed, however, the same policy of economic assistance and friendship which we have pursued with all the American states regardless of the degree of dictatorship of the government. The fall of the Perón regime has placed in power a number of people who harbor deep resentments against the United States.

The problems of the present government are further intensified by the fact that it represents an uneasy alliance between the Army and the Navy. Admiral Rojas, head of the Navy, and the real leader of the recent revolution, although Vice President is actually the strongest man in the government. Just why he occupies the second place is not clear. He states that it is because of the Navy's long tradition of forswearing political activity. More probably the Army has been given the top post as an additional means of insuring its support for the new government.

The Communist party in Argentina is large and well-organized. Today it is exceedingly active and is trying to take advantage of the existing unsettled conditions to capture the largest possible number of the orphaned pro-Perón element—heretofore the most numerous politically organized group in the country.

Balanced against the foregoing are factors which, in my judgment, put it within our power largely to obliterate the old and new resentments against the United States, to create a completely new relationship of mutual understanding, confidence and friendship and to make of Argentina an aggressive partner in our war against Communist subversion in this hemisphere. These factors are discussed below:

The new government realizes that the country needs badly an almost Herculean work of economic reconstruction. The industrial plant is dilapidated and neglected. Transportation, power and communication are likewise. Agriculture has been decapitalized and discriminated against in a vain effort to achieve a showy and impractical kind of industrialization.

The new administration is convinced that it cannot succeed in the economic field without strong assistance from abroad. It has turned first to the United States. It appreciates realistically that this assistance will not be forthcoming unless Argentina is prepared to adopt a frankly pro-United States and anti-Communist attitude. It is willing to follow that course, one that requires considerable courage because of the broad sectors of all classes of society who would readily sympathize with an anti-United States policy.

The present cabinet includes a number of men who impress us as having integrity, intelligence, courage and sufficient experience to enable them to perform a constructive job in the fields of industry, agriculture, commerce, labor and banking. Such men must begin to show a degree of immediate accomplishment; otherwise groups with a greater demagogic appeal will be able to engineer their downfall.

The new government has already endorsed the Pact of Bogotá,[3] one of the three treaties in the inter-American structure. This eliminates the last holdout against the Pact. The government has expressed its intention to adhere to the anti-Communist resolution adopted by the Tenth Inter-American Conference in Caracas. If Argentina adopts a policy of frank hostility to Communism and cooperates with us effectively in hindering the operation of the international Communist apparatus, the effect throughout South America will be very significant. The Communist organization will immediately find it more difficult to operate in Chile, Bolivia, Brazil and Uruguay, in all of which it is now causing us serious problems.

If Argentina adopts a policy of frank support of the private enterprise system, the efforts of socialistically-minded politicians and economists in the same four surrounding countries will be considerably weakened.

In conclusion the Argentine situation today gives to the United States an opportunity to establish a kind of relationship with an exceedingly important American republic which we have never enjoyed, an opportunity to achieve a major advance in our hemispheric fight against Communism and an opportunity to establish the private enterprise system far more firmly in the entire South American continent.

This opportunity is a passing one. Argentina cannot wait to find help in solving her urgent problems. If we do not extend help she will welcome it from other sources prepared to give it and whose participation will prejudice United States interests. The United States public, influenced by our strongly anti-Perón press, will enthusiastically support a policy of generous aid to Argentina.

Failure to exploit this opportunity may well mean that the present Government, which is prepared to adopt a strongly pro-United States attitude, will collapse and be supplanted by another hostile to the United States. Failure to exploit this opportunity will surely cause Argentina to adopt a course which can seriously prejudice our interests there and elsewhere in the hemisphere.

The purpose of this memorandum is to alert all those who will participate in decisions relating to Argentina of the significance of the problems with which they will be dealing.

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[3] A reference to the Charter of the Organization of American States (OAS), signed at Bogotá on April 30, 1948, during the Ninth International Conference of American States. For documentation on U.S. participation in the conference, see *Foreign Relations*, 1948, vol. IX, pp. 1 ff. For text of the OAS Charter, see 2 UST 2416.

207. Memorandum of a Conversation, Rio de Janeiro, February 2, 1956[1]

SUBJECT

Argentine Economic Mission; United Nations Mission to Argentina

PARTICIPANTS

Dr. Luis A. Podestá Costa, Argentine Minister of Foreign Affairs
Sr. Ernesto A. Nogués, Argentine Chief of Protocol
Sr. Guillermo Mackintosh Derqui, Argentine Counselor of Protocol
Mr. Henry F. Holland, Assistant Secretary of State for Inter-American Affairs
Mr. Maurice M. Bernbaum, Director of South American Affairs

Mr. Holland stated that he and others in the Department had been awaiting word regarding the plans of the Argentine Government to send an economic mission. He described the various communications between the Department and the Embassy regarding whether the Argentine Government should send an advance group of technicians to Washington to consult informally on the proposals to be made later by the economic mission, or whether the United States Government should, as requested by Mr. Prebisch, send a group of technicians to Buenos Aires to assist in the preparatory studies being made by the Argentine Government. He stated that the final decision was for the Argentine Government to submit its figures to the Embassy for transmittal to and comment in Washington. Not having heard any more of the matter, he was inquiring as to the intentions of the Argentine Government and also wanted it understood that our interest in the mission had not diminished.

The Foreign Minister stated that he was not up to date on the matter and that he would consult with Mr. Prebisch upon his return to Buenos Aires. He expressed his appreciation for Mr. Holland's expression of continued interest in the Argentine economic mission and stated that the Argentine Government was most definitely interested in the matter.

Mr. Holland then referred to unofficial reports to the effect that the Argentine Government was soon to receive a United Nations economic mission to advise on Argentine economic problems. He stated that he was referring to this mission owing to the close relationship which it would necessarily have with the economic program eventually adopted by the Argentine Government and with the economic mission to be sent by Argentina to Washington. He stated that there were a great many European economists of note available to the United Nations who did not share United States views on the importance of private enterprise and who were inclined to emphasize Government participation in business. Mr. Holland added that although the economic advice to be received by the Argentine Government and the economic philosophy which it would adopt were naturally matters to be decided by Argentina itself, he did think it important that the Argentine Government should be aware of the obstacles which might be placed in the way of successful negotiations with the United States if the Argentine presentation were based on such philosophy. He therefore ventured to suggest the desirability of including in the United Nations delegation a number of United States economists who could be counted on to represent United States economic thinking.

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[1] Source: Department of State, Central Files, 835.00/2–256. Limited Official Use. Drafted by Bernbaum on February 9. These U.S. and Argentine officials were in Brazil for the inauguration of Brazilian President Juscelino Kubitschek on February 2.

The Foreign Minister expressed agreement with Mr. Holland's viewpoint and stated that he would bring it to Mr. Prebisch's attention in Buenos Aires.

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208. Telegram From the Ambassador in Argentina (Nufer) to the Department of State[1]

Buenos Aires, February 10, 1956—7 p.m.

879. Embassy skeptical whether there exists as yet any fully elaborated plan for Argentine economic reconstruction including definite amounts aid wanted from US (Department telegram 803, February 6; Embassy telegram 865, February 8[2]). Government clearly thinking in terms substantial financial aid from US. Argentine slowness to specify aid wanted may be attributed to (1) fear of being rebuffed; (2) nationalistic opposition to outright request for foreign loans; (3) caution inspired by Exim reception steel mill application; (4) time required explore possibilities financial help from Europe or private sources in US. Embassy informed technical advance group will probably visit Washington shortly to explain needs and present supporting statistics. Higher level mission may be delayed until Argentina has some indication of probable reception for specific

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[1] Source: Department of State, Central Files, 033.3511/2–1056. Confidential.

[2] Neither printed. (*Ibid.*, 033.3511/2–456 and /2–856)

request; which may itself be modified by US reaction to advance group.

Ability provisional Government, which is democratically oriented and has shown favorable disposition US, to stay in power depends in part on ability to pull Argentina out of its present economic morass. Failure in this might cause replacement by less desirable government with possible anti-US bias. Although US not responsible Argentine delay, Embassy feels in view passage of time it is most important we be prepared react promptly when Argentine request presented.

Embassy fears agreement to all phases Argentine request may not be feasible. Therefore suggest Argentines be urged present requests in form of specific projects with indications of what complementary financing is expected from sources other than US Government. This would permit examination and approval one part at a time and avoid embarrassment of Argentine Government if reply to a global type proposal appeared unfavorable here. Embassy has already dropped word to some officials in Ministries Finance and Foreign Relations that project type proposals may be easier to discuss and might advance more quickly in Washington.

The unfortunate fact must be recognized that most of essential reconstruction projects such as steel plant, electric generators, etc., will require at least 3 years to have any appreciable effect on Argentine economy. Some smaller projects such as credit facilities for raw materials, industrial machinery replacements, farm machinery, etc., would have some effect within year. Critical period will probably occur within few months.

Embassy wishes emphasize once more importance keeping in view important political considerations in determining extent and nature US assistance and of avoiding if at all possible apparent negative reactions which would permit unfriendly elements here blame crises on US.

Nufer

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209. Editorial Note

On February 23 an NAC Working Group met, pursuant to a request by the Department of State, to deal with expected requests for economic assistance from Argentina, Brazil, and Chile. The Chairman of the Working Group, Henry Bitterman of the Department of the Treasury, stated that the group would be concerned strictly with objective economic criteria and not with political considerations. (Memorandum from Vaky to Holland, February 27, 1956; Department of State, Central Files, 835.00/2–2756)

On April 12 the ABC Working Group, as it was called, forwarded its study to the NAC Staff Committee. (NAC Staff Document 748; *ibid.*, NAC Files: Lot 60 D 137, Staff Documents) Vaky forwarded a copy of the study to Holland and Lyon on May 10, and in a covering memorandum provided a summary of its principal conclusions. His memorandum reads in part as follows:

> "What Argentina needs to do now in order to regain her 'productive rhythm' is to reverse the policies which brought about present difficulties. In general terms the main required measures are: 1) bring inflation under control; 2) develop a long-range agricultural and livestock program that gives adequate consideration to the country's productive opportunities and export possibilities; 3) rehabilitate and overhaul the railway system both physically and administratively (a sine qua non for genuine progress); 4) increase electric generating capacity (assured fair treatment, private capital could do a considerable part or all the job); 5) seek to earn or save foreign exchange by investigating the possibility of new products such as forestry products and minerals, eliminating excessive government control that hampered activity and increasing petroleum production as rapidly as possible.
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> "It is clear that Argentina commands neither the necessary domestic savings nor the necessary foreign exchange to undertake all these projects out of her own resources. If her recovery is not to be indefinitely postponed or slowed down she will need large amounts of external financing. The figure of 1.2 billion dollars mentioned by Prebisch has no known firm basis. The actual amount 'needed' depends on the specific plans and programs of the Government, about which we know practically nothing. The amount she will seek from foreign governments or international institutions will depend upon her willingness to accept private foreign investment and the extent to which she obtains capital goods by contracting short and medium term equipment obligations abroad." (*Ibid.*, Central Files, 835.00/5–1056)

210. Memorandum of a Conversation, Department of State, Washington, April 25, 1956, 4:30 p.m.[1]

SUBJECT

Developments in Argentina

PARTICIPANTS

Dr. Adolfo Vicchi, Argentine Ambassador
ARA—Mr. Holland
OSA—Mr. Vaky

Ambassador Vicchi said that he wanted to give Mr. Holland a rundown of developments in Argentina as he saw it following his recent consultation in Buenos Aires.

The Ambassador said that there was no question regarding the stability of the present Government. Aramburu's prestige had increased enormously. The danger of the return of Perón had disappeared and Peronista support and sentiment had declined greatly. The plots and sabotage reported in the press were terroristic, but any feeling for a return to Peronismo had been largely dissipated. The Ambassador did say that there were political differences within the Government's support such as those between the political parties. He said that for example the Radical Party was deeply divided, and other political elements were apprehensive over Frondizi[2] and the Intransigent Radical Group. For this reason it was extremely difficult to estimate when constitutional government might be formed. He said, however, that if the present Government can carry out its policies and if economic health and stability can be achieved, the Government would secure undoubted majority support and a politically stable climate.

The Ambassador said that it should be remembered that the Government was composed of heterogenous elements, each with its own criteria and ideas. This, plus the fact that the present government members, however sincere and well-intentioned, had little experience in government, meant that the evolution of policy and formulation of important decisions was necessarily slow. He said, however, that the Government was moving firmly, if slowly, in the direction of constitutional stable government and a freer healthy economy. He said that for that reason the United States should be patient with respect to the speed with which new policies are set and decisions are taken in Argentina.

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[1] Source: Department of State, Central Files, 735.00/4–2556. Confidential. Drafted by Vaky.

[2] Arturo Frondizi, leader of the Radical Party.

He had been perturbed, he said, over some internal economic measures, such as price control, which he felt were not leading in the right direction. He had been assured, however, that these were necessary emergency measures which would be eliminated as soon as possible. The Government's intention was to move toward less state control and a freer economy. He mentioned that the power had now come to the fore, and said he felt that the political parties had adopted a somewhat demagogic attitude, but that the Government did not share that view. The Government was determined to adopt a policy of working out satisfactory arrangements to permit private companies to operate in the electric power field.

Dr. Vicchi said that the question of Kaiser's contract had been satisfactorily settled. The company was making additional investments, and agreement was reached on the production of trucks, tractors, jeeps instead of passenger cars in the immediate future. Decisions had also been made to remove Kaiser and other American companies from the interdicted list, but that this would occur slowly because the Government wanted to remove several foreign companies from various countries all at once.

The Ambassador mentioned that public reaction to the announcement that Argentina would join the Fund and World Bank had been good, and in response to Mr. Holland's question, said that public reaction to the ratification of the OAS Charter and adherence to the Caracas Resolution was also favorable.[3]

Mr. Holland pointed out that if one or two large companies could invest large amounts in Argentina in whatever fields were mutually agreeable, this would greatly stimulate confidence abroad. The Ambassador agreed. The question of electric power again came up, and Mr. Holland mentioned that he had talked with representatives of SOFINA. The Ambassador pointed out that there were three foreign companies in the electric power field in Argentina—SOFINA (CADE), Italo (Swiss), and American and Foreign Power. The problems of CADE and A&FP were very different, he said. CADE had a bad reputation as a result of charges and countercharges of bribery over the securing of its 1936 concession. Nevertheless, the Government was willing to work out with CADE mutually satisfactory arrangements for continued operation by the company. The Ambassador repeated several times that although there was considerable sentiment for nationalization of the electric power industry, particularly on the part of political parties, he was convinced that the Government would stand firm on its policy of permitting private companies to operate and would establish that policy. Mr. Holland said that the interesting point to him was that he had been told by representatives of both A&FP and SOFINA that, if satisfactory conditions can be established, the companies would be willing to invest large amounts of new money.

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[3] Argentina ratified the Caracas Resolution in March 1956 and the OAS Charter on April 10. On September 20, Argentina joined the IBRD and the IMF.

Mr. Holland then referred to his luncheon with Ambassador García, that afternoon, in which the latter expressed the desirability of having young Argentine military officers trained in the US. Mr. Holland stated that the same problem arose in this regard as had arisen on the question of purchase of armaments. If a bilateral military pact existed, funds would be available for large scale training or provision of armaments. Without such a pact, the US was limited in what it could do in this connection by non-availability of funds and statutory limitations. He said he merely wished to point out these advantages. On the other hand, he did not consider that there was any pressing military reason to conclude a pact immediately, and he fully appreciated that to conclude such a pact with this country would present the Argentine Government with serious internal problems. Ambassador Vicchi said that was certainly the case. If, for example, a military pact was concluded simultaneously or shortly after the extension of economic assistance to Argentina by the US, the Government would immediately be charged with "selling out" to the Pentagon. This would give to certain elements a handy club with which to beat the Government over the head, and would present a serious internal problem. Moreover, the Ambassador went on, the Argentine public is traditionally isolationist and antipathetic to military obligations abroad or military alignments with other countries. He pointed out two recent incidents of this, stating that when Perón was considering participating in the Korean effort there was a sincere, spontaneous and widespread public reaction against it. Secondly, the major criticism directed against the Standard of California contract was that it would provide foreign military bases on Argentine territory. However wrong this conclusion might have been, it was a real concern to the public. He admitted that some military elements, desirous of obtaining armaments, were partial to the conclusion of a pact, but felt that the Government could not at this time do that without seriously exposing itself to public antipathy and internal opposition that would greatly weaken it.

On the other hand, the Ambassador went on, he felt that such a pact would come by itself in time. He pointed out that Argentina was now embarked on a policy of greater hemispheric and international cooperation, having ratified the OAS Charter, decided to join the IMF and adhered to the Caracas Resolution. As this policy continued Argentina would evolve to the point where a military pact would logically follow. He added that there was no question but that in a war or military crisis Argentina would be at the side of the

US with or without a pact, but he agreed that there was no immediate crisis or military need for conclusion of a pact now.

The Ambassador then said that this raised the point of reequipment of Argentina's armed services. He said that there was a need for this, and military leaders were naturally concerned with obtaining modern equipment. He stated that he had brought back with him a list of equipment which the military [he seemed to be referring largely to the Army here][4] desired. If some facility or manner could be found to provide this equipment, such as favorable credit or discounts on terms which Argentina could accept, it would serve to tranquilize the military sectors. He said that, if there was any conflict between providing military equipment and extending economic and financial assistance, the latter must take priority. But he hoped that some way could be found to aid Argentina in this military aspect. He said that he wanted to discuss this at greater length with Mr. Holland at a later date, at which time he would bring the list, but he did want to advise him that this matter was coming up.[5]

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[4] Brackets in the source text.

[5] On May 24, Vicchi presented Holland with two lists enumerating military equipment which the Argentines wished to procure in the United States. During their meeting, Holland informed Vicchi that the United States would do everything possible to aid Argentina in obtaining the equipment in the most practical manner. (Memorandum of conversation by Watrous; Department of State, Central Files, 611.35/5–2456)

In a letter to Gray, June 19, Barnes summarized the Argentine request, commenting that "The Department of State desires to assist the Argentine Government in every appropriate way in obtaining the military equipment it requires." He pointed out that the Department of State was unable to assess the economic implications of the Argentine request "without a pricing and availability study by your Department", and requested that Defense offer its recommendations on the request along with a pricing and availability study. (*Ibid.*, 735.5–MSP/5–2456)

211. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, June 12, 1956.

SUBJECT

Argentine Revolt

Martial law continues in Argentina, but the nation now appears quiet.[2] There have been no reports of injuries to Americans or to American property.

It now appears that the Army units which rebelled did not do so in a body; rather, attempts to seize control of them were made by outside groups or disloyal internal elements. In only one case was resistance prolonged, and the revolt as a whole was effectively suppressed by noon on June 10.

The Government is carrying out an intensive search for Peronista leaders, and has rounded up, according to unofficial reports, some 1,000 persons. Government announcements confirm the execution, following trial by military court, of 16 active and retired military personnel, and 18 civilians. These courts continue to sit.

The Provisional Government's forceful action in meeting this crisis has probably strengthened it for the time being. Should, however, it adopt a policy of greater severity toward the Peronistas, including Army purges, the Administration may forfeit any chance of substantially pacifying the political life of the country.

There is no reason to believe that the revolt will have any effect on the present excellent state of Argentine-United States relations.

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[1] Source: Department of State, Central Files, 735.00/6–1256. Confidential. Drafted by Watrous and Vaky. Copies were sent to Hoover and Murphy.

[2] On June 10, elements of the Argentine Army loyal to former President Perón revolted against the Aramburu government. Despatch 958 from Buenos Aires, June 29, summarized these developments. (*Ibid.*, 735.00/6–2956) Despatch 6 from Buenos Aires, July 5, analyzed the limited role which Argentine Communists played in the revolt. (*Ibid.*, 735.00/7–556)

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212. Editorial Note

On June 25 an Argentine Financial Mission arrived in the United States to discuss possible American aid to Argentina. The mission, headed by Carlos Coll Benegas, President of Banco de la

Nación, held a series of eight meetings July 2–17 with a United States Delegation. The United States Delegation was composed of representatives from the Departments of State, Agriculture, and the Treasury, as well as the Export-Import Bank, and chaired by Maurice Bernbaum. Summary minutes of these meetings are in Department of State, Central Files 835.00 and 835.10.

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213. Memorandum of a Conversation, Washington, July 6, 1956[1]

SUBJECT

Argentine Policy Toward Private Investment

PARTICIPANTS

Dr. Carlos Coll Benegas, Chief of the Argentine Financial Mission
Henry F. Holland, Assistant Secretary for Inter-American Affairs
Rollin S. Atwood, Director for Latin American Operations, ICA
Maurice M. Bernbaum, Director for South American Affairs

The conversation took place during luncheon at the Metropolitan Club. Mr. Holland stated that he welcomed the opportunity to speak with Dr. Coll Benegas at the outset of his discussions with representatives of the various U.S. Government agencies regarding the Argentine economy and its requirements. He stated that without attempting to speak for the State Department or the Export-Import Bank, he thought it would be useful for Dr. Coll Benegas to have the benefit of his personal observations based on experience regarding the economic policies of our Government. He went on to say that these policies were largely based on the concept that the primary burden for the economic development of any country was on that country's private investors, the efforts of its own private investors could be supplemented by the very important contributions of foreign private investors, and that Government financing could play a most important but nevertheless relatively minor role. Our experience has demonstrated to our satisfaction the soundness of these policies.

Mr. Holland stated that he was accordingly somewhat disturbed over indications that the Argentine Government was planning to expropriate CADE and to apply for Government loans to expand its operations. He realized that it was the privilege of the Argentine Government to act in accordance with what it considered to be its own best interests, but he did feel that Dr. Coll Benegas should, as the head of the Argentine mission, have a clear understanding of the reactions which might be expected to such action. Firstly, Mr. Holland estimated that the Export-Import Bank would find itself confronted with a decision as to whether its frequently stated policy would permit the extension of a loan to a government for an expropriated property for which private capital was readily available. Secondly, Mr. Holland was reasonably certain that the reaction in investment circles would be one of apprehension regarding the future of private investments in Argentina. Given the caution of most investors, the net result would be the drying-up of investment interest in Argentina. Mr. Holland recognized that the Argentine Government would treat the CADE shareholders equitably and that it would be ready to give assurances to private investors that they would be treated fairly and equitably in the event that their own holdings might be taken over by the government in the future. He pointed out, however, that this would represent only cold comfort to an investor who would be putting his money into a new enterprise with the idea of making profits, and not of merely getting his money back at sometime in the future.

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[1] Source: Department of State, Central Files, 835.00/7–656. Confidential. Drafted by Bernbaum on July 9.

Dr. Coll Benegas stated that he understood Mr. Holland's observations perfectly and was personally very sympathetic to the philosophy and the good intentions underlying them. He observed, however, that the Argentine Government was not entirely a free agent to the extent that it was necessary to yield to public opinion. In this case CADE had an extremely bad reputation in Argentina owing to fraudulent practices in the past, with the result that most sectors of public opinion in Argentina felt that CADE would have to go. Government intervention in this case would be only an intermediate step in the eventual taking over of the firm by private Argentine capital. Such capital was not now available in sufficient amount to handle the job, with the result that the Government proposed to step in on an interim basis and to unload its holdings as the opportunity presented itself. CADE shareholders would have their interests protected through the allocation to them of shares in the new company based on evaluation of existing holdings, less the considerable amounts of money owed the Government.

Dr. Coll then pointed out the situation was entirely different with respect to the American and Foreign Power problem with which the Government and public opinion were entirely sympathetic. Their plans for this organization involved full restitution on an equitable basis to be worked out jointly for the previously-expropriated properties and for the establishment of conditions which would permit the company to operate profitably and to expand its operations in the future.

Mr. Holland stated that he was most grateful for that kind of news regarding American and Foreign Power. He was also happy that CADE was Belgian and not American owned, since that would permit him to emphasize the importance he attributed to private capital regardless of its national origins. He recognized that there might exist special circumstances regarding the background of CADE which might call for special solutions. He suggested, however, the desirability, from the viewpoint of investor reaction, of basing the ultimate solution on private capital rather than on government expropriation, since that was, in any case, the Argentine Government's ultimate objective. When asked by Dr. Coll how this could be done, Mr. Holland offered as an illustration the possibility of having a group of prominent Argentine businessmen get together a sufficient amount of money to cover the peso costs of the necessary expansion in CADE facilities and then to negotiate with CADE the formation of a new company in which CADE shareholders would have an interest based on the value of their properties. The Government might, if necessary, underwrite peso deficiencies. The new company would then be in a position to apply to the Export-Import Bank for a loan covering the dollar costs of the material and equipment required for the expansion of facilities. Mr. Holland pointed out that this was a frequently used device in the United States and was only one of a large number of possible alternatives. He emphasized again that he was speaking personally and was in no way qualified to speak for or commit the Export-Import Bank.

Dr. Coll Benegas smilingly remarked that this would be a very ingenious solution which merited serious consideration by his Government. He appeared to think that something might be worked out. He expressed his appreciation to Mr. Holland for the interest displayed in Argentine problems and for the valuable advice given. It was suggested that he get in touch with Mr. Holland from time to time during his stay in Washington.

The conversation then turned to the interest of the Argentine Government in securing Point 4 assistance (see separate memorandum).[2]

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[2] Not printed. (*Ibid.*, 835.00–TA/7–1156) The "Point 4" program, so-called after President Truman's fourth point during his inaugural address of January 1949, refers to the U.S. program of overseas technical assistance.

214. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, July 11, 1956.

SUBJECT

Importance of Present United States Relations With Argentina, Brazil and Chile

Current Importance

This is an exceedingly important period in our relations with the three countries named. The course of our relations during the next few months will considerably shape our future relations not only with these three countries but with all of Latin America.

The factors which cause this are:

1. First, the current Soviet campaign for closer economic and diplomatic relations with Latin America.[2] That campaign is in its early stages. I believe that today the Soviets are assembling information, testing contacts and public opinion, preparatory to embarking on a coordinated program.
2. Each of these three countries is emerging from a long period of political and economic confusion and weakness. Factors which are fluid today, but which are rapidly hardening will determine whether the next several years will be like the past or whether they will be years of stabilization and progress.
3. As you know, these three countries are larger territorially than the rest of Latin America combined. They include over a third of the population of the area, and that third includes the most advanced peoples of the Latin American community.

If Argentina, Brazil and Chile follow an anti-communist, pro-United States, pro-private enterprise road, then the course of the balance of Latin America is assured. On the other hand, if any one of these three countries deviates from that path, then we may have calamitous problems in the area. The Russians know this and will include these three countries in the prime targets of the campaign for which they are now tooling up. They have excellent opportunities to create difficulties for us in each country. One of the best lies in offering really important financing for the Government oil monopolies in Brazil and Argentina. Our own refusal to do so (in which we must remain firm) would lend great public appeal to a communist offer. I hope earnestly that the Russians dissipate in other parts of the world whatever capital they have available for such adventures.

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[1] Source: Department of State, Central Files, 611.35/7–1156. Secret. A handwritten note on the source text indicates that both Dulles and Hoover saw this memorandum.

[2] On January 16, Nikolay A. Bulganin, Chairman of the Council of Ministers of the Soviet Union, offered to expand diplomatic, economic, and cultural relations with Latin America.

The foregoing does not mean that the communists are idle at this time. The USSR and all the Eastern European satellites except Albania have diplomatic missions in Argentina. They are very active. Attached as (Tab C) is a copy of a memorandum which I submitted to you March 6 outlining communist activities in Argentina.[3]

Present State of Relations With A–B–C Countries

Attached (Tab A) is a two-and-one-half-page memorandum dated January 26, 1956, and in which I undertook to outline for you the present situation in Argentina.[4] It is still valid. Since its dictation the new Government has weathered several strong attempts by Peronist elements to overthrow it. As foreseen in the memorandum, it has adhered to the Anti-Communist Resolution of Caracas. It has joined the International Monetary Fund and the International Bank. It has established a close and effective liaison arrangement with us to combat communism.

You are familiar with the situation in Brazil. The Vargas regime which ended with his suicide in August of 1954 was one of inflation, corruption and demagogic economic measures which cruelly weakened the national economy. The Communist Party gained substantially in numbers and influence, becoming the largest and most important Communist Party in the hemisphere. During the succeeding sixteen months, a caretaker administration was in power. It achieved nothing and left office in an embarrassing and undignified series of quick shifts of power. The new administration headed by Kubitschek and Goulart was awaited with considerable foreboding. A number of factors, including visits by both men to the United States, the Vice President's attendance at the inauguration, plus timely announcements of loans and other types of aid have all contributed to making the picture very different from that which we had feared.

Attached hereto (Tab B) is a copy of a cable sent by Ambassador Dunn on the day before his departure from Rio and just after his last interview with President Kubitschek.[5] In my judgment it is an entirely valid summary of the present situation in Brazil and I urge that you read it.

The situation in Chile is less crucial, but exceedingly important. Chile's history during recent years has been one of rapidly spiraling inflation, of increasing communist infiltration, growing anti-United

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[3] In this memorandum Holland summarized Soviet bloc relations with Argentina. "The international communist front propagandizing for East-West trade," he noted in part, "has its most active Latin American branch in Argentina."

[4] See the enclosure to Document 206.

[5] See Document 333.

States sentiment and weakening national economy. Last year we persuaded the government to contract for a Klein–Saks Mission to assist in ordering its economy. One after one a number of the Mission's recommendations have been adopted. With each decision the opposing influences were almost evenly balanced and the outcome was unpredictable. The Government and responsible public sectors of Chile are moving with some uncertainty down a road toward economic stability. Inflation has been checked. Important loan applications in the Exim and IBRD are receiving favorable consideration. Substantial new private investments seem assured. There is a chance that Chile may become the kind of example of successful self-discipline and private enterprise afforded by Venezuela and Peru in the past.

In summary, United States relations with the A–B–C countries and the chances for real economic stability are better today than they have been in many years.

Present Financial Negotiations with Argentina and Brazil

We shall see the A–B–C presidents in Panama.[6] We have today in Washington negotiating missions from both Argentina and Brazil. They are discussing financing for the economic programs of the two countries. Some months ago each indicated that it would seek fantastic amounts exceeding a billion dollars. Their approach seems now to be considerably more moderate.

We are going to have to decide soon on what financing we shall offer. The factors which should clearly control our decision seem to me to be:

1. We should authorize that amount of loans which conforms to our stated policies, i.e., that the loans be sound and repayable, that the projects be in the interest of the two countries, that the loans be to acquire United States goods or services, and that capital not be available from private sources.

2. At the same time, we should condition loans upon reasonable assurances that the two governments will, in turn, follow certain policies which we feel are essential to real economic recovery.

In Argentina this means a commitment to allow the electric and meat packing industries to expand under reasonable regulation and without increased Government competition. The Argentine negotiating mission has indicated that, for political reasons, the government hopes to expropriate one of the two principal electrical companies (Belgian owned) and get Exim financing to expand the company's existing plant. The plan contemplates payment through allowing the former owners a minority interest in the new government-controlled company. This is not effective compensation. I explained to the head of the mission that any such move would make it hard for us to help the new Government. We should make the same point clear to President Aramburu at Panama.

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[6] Reference is to the Meeting of the Presidents of the American Republics; see vol. VI, Documents 109 ff.

We cannot exact commitments from either government regarding the petroleum industry at this time. Neither is strong enough to fulfill them. We can, however, require reasonable assurances regarding control of inflation and basic sound monetary policies.

These are rather modest conditions. However, we shall have to be rather firm to attain them. We are entirely justified in doing so because these are the kind of commitments that will weld the countries more firmly to us. Further, unless they are made, the prospects for stable economies are not good.

3. Finally, in deciding on the amount of our loans to these two countries we must consider realistically the amount of credit that in our best judgment represents the minimum necessary to keep each country sturdy in its new close relations with the United States. We may well find that this will exceed the volume of loans which can be justified by purely banking and economic considerations. Where this is true we must be prepared, within reason, to lend the larger sum. The alternative could well be to drive either country into a relationship with the Soviet bloc which would impair our present strong situation in Latin America.

Elsewhere in the world we have huge grant aid programs. This cannot be justified on fiscal and banking grounds, but they are necessary in order to produce the kind of attitude that we want in the countries benefitted. Fortunately, in this hemisphere our aid programs cost little, less than 1% of the global cost. Thus far we have succeeded in persuading the states that, as for government aid, they should be largely satisfied with generous loans. As our negotiations with Argentina and Brazil continue we shall be able to discern the amount of such credit which is the minimum necessary to assure favorable policies in those countries. The margin, if any, by which this sum may exceed that which can be justified on sound banking principles may well be a reasonable price for the security in this

hemisphere that is sure only if Argentina, Brazil and Chile are firm in their ties with the United States.[7]

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[7] In a memorandum to Holland, July 18, W. Park Armstrong commented on Holland's memorandum to Dulles of July 11. He stated that he was "in full agreement with the conclusion that 'this is an exceedingly important period in our relations with the three countries named' and that the course of our relations with these countries in the immediate future will considerably shape our relations with Latin America over the long run." "I believe," he added, "that assistance of the sort visualized in your memorandum would serve to reduce the effects of social pressures and economic problems foreseen, to raise the level of Latin American cooperation with the United States, and to counter the Soviet campaign in the area." (Department of State, Central Files, 611.35/7–1156)

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215. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, July 14, 1956.

SUBJECT

Economic Assistance to Argentina

An Argentine negotiating mission is well advanced in conferences seeking U.S. financing for government's economic program. President Aramburu will surely raise the question with us in Panama. It is not necessary that we have a specific answer, but it is very important that we know by then whether U.S. will at the conclusion of the conferences offer some financing to Argentina or not.

At this moment the Export-Import Bank is pessimistic regarding Argentina's capacity to sustain additional dollar loans. Sam Waugh has conferred with Gene Black who says IBRD is reluctant to consider foreign currency loans because (1) it believes that Argentina is not yet a good credit risk, (2) it has reservations as to provisional government's legal capacity to pledge Argentine credit and (3) it would insist on sending its own study mission to Argentina before considering any loans there.

As contemplated in my briefing paper to you of July 11, 1956, entitled "Importance of Present United States Relations with Argentina, Brazil and Chile", it appears that we must decide whether political factors justify the U.S. in more generous credit policies than strictly banking considerations would justify. In my own judgment they do, provided that Argentina gives us certain reasonable and politically practical assurances regarding treatment to be accorded private enterprise, and U.S. interests in particular.

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[1] Source: Department of State, Central Files, 835.10/7–1456. Secret.

This problem is complicated further by the probability that, by the time we go to Panama, the Export-Import Bank will have decided to extend to Brazil substantial developmental credits amounting to several hundreds of millions of dollars.

It is most urgent, I feel, that on Monday or Tuesday, July 16 or 17, you meet with Secretary Humphrey, Sam Waugh and appropriate Department officers to determine the general attitude which you and President Eisenhower will take on this subject in discussions with President Aramburu in Panama.

Recommendation:

That you arrange such a conference.[2]

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[2] Dulles initialed his approval on July 16.

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216. Memorandum of a Conversation, Department of State, Washington, July 16, 1956[1]

SUBJECT

Possible Statement by President Eisenhower to President Aramburu at Panama on Assistance to Argentina

PARTICIPANTS

Mr. Dulles, Secretary of State
Mr. Humphrey, Secretary of Treasury
Mr. Holland, Assistant Secretary of State
Mr. Kalijarvi, Deputy Assistant Secretary
Mr. Bernbaum, OSA
Mr. Rosenson, REA
Mr. Arey, Export-Import Bank
Mr. Blowers, Export-Import Bank

Mr. Holland said that the President will undoubtedly see Aramburu at the forthcoming meeting in Panama and that the latter will press for some indication as to where the U.S. stands on the matter of loan assistance. A fact-finding group consisting of representatives of State, Treasury, Export-Import Bank and Agriculture has been holding meetings with the Argentine Mission for about 10 days. Argentina is seeking a total of $500 million for rehabilitation of its railroads, expansion of electric utilities, and industrial and agricultural equipment. Of this amount they consider $262 million urgent.

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[1] Source: Department of State, Central Files, 835.10/7–1656. Confidential. Drafted by Rosenson.

Mr. Holland said that in Latin America Brazil, Argentina and Chile, in that order, are crucial in the struggle against communism. He mentioned the new Russian economic offensive which he said is still in the "tooling up" stage. If the communists got a foothold in any one of these three countries it would present us with a very serious problem in the whole continent. The new government is the first one in many years to be friendly to the United States. They need help badly. If we refuse our help there is a real danger that they will move toward closer relations with the Soviet bloc.

Any assistance we give Argentina should be accompanied by certain conditions with respect to (1) American and Foreign Power (2) the meat companies and (3) CADE (Compania Argentina de Electricidad). Mr. Holland said that as regards CADE we should insist first that any change in the present setup should be made only in agreement with the present owners and secondly, that the enterprise should remain in private hands. He explained parenthetically the bad reputation of CADE and the government's needs to eliminate it on political grounds.

Summing up his brief presentation, Mr. Holland expressed the view that we probably should be prepared to lend the Argentines $200 million for their railroads, letting them look to private capital for their electric utility needs. He believed that we should recommend to the President that in speaking to Aramburu he should leave the impression that the U.S. will help out Argentina with some financing.

Mr. Humphrey said that we cannot look at this problem in terms of Argentina alone. It must be regarded as a part of an over-all South American problem. There are also Brazil and Chile to consider. Taken together, the programs of these countries involve huge amounts of money. In one sense Argentina is the worst of the three in that it has the least commercial contact with the U.S., although in its treatment of U.S. investors it was probably no worse than Chile. Mr. Humphrey recognized that the new Argentine government is in every respect a great improvement over the old. They are trying hard to do the right thing and we should encourage them. However, the magnitude of the problem is such that we cannot reach a decision in the next 2 or 3 days.

Mr. Holland pointed out that Chile is already well on the road to getting both Eximbank and IBRD loans. The Eximbank is now talking to the Brazilians in terms of very large amounts. So that

Argentina is trailing the procession rather than setting a pattern for the others.

Mr. Humphrey thought the President should not commit the U.S. Government to make any loans to Argentina.

Mr. Dulles agreed that there should be no commitment, but he pointed out that the talk between the two presidents is bound to give rise to certain inferences. Even friendly statements couched in the most general terms are likely to be considered later as moral commitments on the part of the U.S. He therefore thought that our recommendations to the President should contain caveats on this score.

Mr. Humphrey said that the main trouble with lending to Argentina is that the country has such little dollar earning capacity.

Mr. Arey said that when Mr. Waugh visited Argentina some time ago he had in effect told the government "We have committed ourselves to assist you in purchasing a steel mill in the U.S. even though we do not consider it an economic venture. We hope you will think about whether you really want to go ahead with the steel mill, because if you do it may affect your ability to borrow money from the Bank for other purposes." Mr. Arey said that in addition to the $60 million they will get from the Bank for the steel mill they will need at least $40 million more, and they already owe the Bank $90 million. He thought the steel mill was a very unwise investment. (Mr. Humphrey agreed.) He added that the Argentines have no servicing capacity in dollars and therefore the thing for them to do is to borrow in non-dollar currencies.

Mr. Kalijarvi said that there has not as yet been an opportunity to study the problem with sufficient care, particularly as we have not had any real economic information from Argentina for the last 10 years. We should not make any decisions on this important matter until we have made an exhaustive study of the facts.

Mr. Holland said that the only purpose of this meeting is to decide on the recommendation to the President regarding what he should say to Aramburu. After Aramburu speaks to the President he will go away with one of two impressions: (a) that the U.S. has decided not to help Argentina, (b) that the U.S. is prepared to do something for Argentina. We have to decide which it will be.

Mr. Humphrey said that the Argentine Government is a good one but that they are entirely unrealistic in the amount of borrowing they want to do. He mentioned $20 to $30 million as the order of magnitude we should be thinking of. In this connection he again reverted to the difficulties which the Argentines would have in attempting to convert their soft-currency surpluses into dollars.

Mr. Dulles asked what would happen if the Argentines did not get some assistance from the U.S. Mr. Holland said that the present government would fall and that the Radicals and Socialists, who don't like the U.S., would probably take over.

Mr. Humphrey agreed that the present government must show results to stay in power. We ought to try to help them, but first and foremost we should work through the IBRD because of the currency problem. We should try to help them, but not encourage them to think in terms of the magnitudes about which they are now talking.

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217. National Intelligence Estimate[1]

NIE 91–56 *Washington, July 17, 1956.*

THE OUTLOOK FOR ARGENTINA[2]

The Problem

To assess the character and objectives of the present regime and the pressures operating within it; and to estimate Argentina's internal stability and foreign and domestic policies over the next few years.

Conclusions[3]

1. Argentina is currently ruled by a Provisional Government in which the armed forces are dominant. Although the present government is committed to the reestablishment of a democracy, a free trade-union movement, and a free economy, it has thus far been generally unable to implement broadly its basic program. *(Paras. 23, 26)*

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[1] Source: Department of State, INR–NIE Files, Secret. National Intelligence Estimates were high-level interdepartmental reports appraising foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the President, appropriate officers of cabinet level, and the members of the National Security Council (NSC). The Department of State provided all political and some economic sections of NIEs.

[2] According to a note on the cover sheet, the following intelligence organizations participated in the preparation of this estimate: the CIA and the intelligence organizations of the Departments of State, Army, Navy, and Air Force and the Joint Staff. All members of the IAC concurred with the estimate on July 16 with the exception of the representatives of the Atomic Energy Commission (AEC) and the Federal Bureau of Investigation (FBI), who abstained on the grounds that the subject was outside their jurisdiction.

[3] See Appendix for Summary. [Footnote in the source text.]

2. Although the downfall of Peron has permitted Argentina's traditional middle and upper class ruling groups an opportunity to return to power, the changes wrought by the Peronist revolution are too fundamental to be more than partly undone at least within the period of this estimate. The government's dilemma is that it must satisfy the aspirations of the hitherto favored laboring classes, while at the same time attacking Argentina's pressing economic problems. The degree to which these two conflicting necessities are reconciled will in large measure determine whether Argentina will move toward political freedom and stability or toward an increasingly unstable authoritarian regime. *(Paras. 12–21, 47–50, 52)*

3. The government is capable of suppressing conspiracies and maintaining internal security. However, its stability will continue to be threatened by interservice rivalry, factionalism within the army, labor discontent, subversive Peronist activities, and unsatisfied aspirations of the legal political parties and the Church. *(Paras. 23, 29–39, 42)*

4. At the present time we cannot make a firm estimate of political developments in Argentina. The present regime is viewed by its supporters as only a temporary receivership entrusted with the fulfillment of the objectives of the revolution. It has recognized its limited tenure by committing itself to hold elections before the end of 1957. *(Paras. 27, 35, 43)*

5. In view of the exclusion of the Peronist party and of former Peronist leaders as candidates, the Radical party is now overwhelmingly the strongest potential contender in a national election. However, the present regime contains strong elements antagonistic toward the dominant Frondizi faction of the Radical party. It may therefore attempt to form a coalition of moderate-conservative groups to contest the election. If a Radical electoral victory seemed likely, the regime, under the influence of elements unwilling to accept that result, might rig the elections or postpone them indefinitely. In either of these eventualities, popular disappointment, Radical party opposition, labor discontent, and continued interservice rivalry and factionalism in the army would probably force the government to move toward a rightist-oriented authoritarian regime. In our view, however, a regime of this kind would probably have to give way in time to a regime commanding mass support. *(Paras. 35–37, 44)*

6. We believe that the Provisional Government presently intends to effect an orderly transfer of power to a duly elected civilian government, and that the chances are slightly better than even that it will succeed in doing so approximately on schedule. However, pending the accomplishment of this transition, the regime will

remain vulnerable to revolutionary upset or a seizure of power by certain military elements within the present regime. *(Para. 45)*

7. The still legal Communist Party, whose membership has grown from about 35,000 to about 50,000 since the fall of Peron, will probably continue to expand its influence unless it is outlawed. In free elections it could probably organize a substantial protest vote, and for this reason would be considered an attractive political ally. *(Paras. 40–41, 46)*

8. The present government faces serious political difficulties in carrying out its economic policies. Plans to resist wage increases and offset inflationary pressures by increased production and saving will almost certainly meet growing labor resistance. The latter will demand additional wage increases as long as price controls continue to be ineffective. Demands for increased credit will add to existing inflationary pressures. *(Para. 52)*

9. The government's longer-run problem is how to revive economic growth. Solution is dependent upon development of the nation's inadequate transport, power, and other basic services. Since Argentina will not itself be able to finance such development, it will continue to seek financial assistance primarily from the United States, the World Bank, and Western Europe. However, until the petroleum development problem is well on the way to solution, Argentina will lack the ability to service large foreign investments and will probably not be able to attract substantial foreign private funds. *(Paras. 47–49, 54)*

10. So long as the present government is in power, Argentina will almost certainly pursue a policy of accommodation with the US, although probably not to the extent of negotiating a bilateral military pact. As to possible successor governments, the degree of cooperation will vary; it would probably be greatest from a rightist-oriented authoritarian regime and more limited if a Radical or neo-Peronist government came to power. *(Paras. 56–59)*

11. Economic needs will probably lead Argentina to expand its already extensive trade with the Bloc. Argentina might also accept Soviet offers of developmental assistance, particularly if such aid as the United States may offer appears insufficient. *(Paras. 51, 53–55, 62)*

[Here follow paragraphs 12–62 and an appendix.]

218. Memorandum of a Conversation, Department of State, Washington, July 20, 1956, 12:15 p.m.[1]

SUBJECT

Summation of Discussions with Argentine Financial Mission

PARTICIPANTS

Dr. Coll Benegas, Head of Mission
ARA—Mr. Holland
OSA—Mr. Bernbaum
OSA—Mr. Vaky

Mr. Bernbaum summarized general impressions received by the US group which has been holding discussions with the Argentine Financial Mission. He said that the conversations have been very useful. The data obtained were being studied and digested. It would be premature to offer more than certain general impressions at this time. There were certain points which were highlighted and which impressed all members of the committee: 1) The US members, he said, were impressed with the Government's general program for internal economic reform, such as reforms of the banking system, plans to control inflation, credit policy, etc. These were felt to be sound objectives. 2) The crux of Argentina's economic recovery program was its ability to produce and export agricultural products, particularly feed grains. It was felt that Argentine estimates of export possibilities may be somewhat over-optimistic, considering world market conditions in the next several years, as regards both quantity and price. 3) While Argentine estimates of capital needs were very large, the Government feels unable to utilize all possible resources—namely private capital—to the full extent it could for political reasons. Speaking in strict economic terms, the economic consequences are that the Government is diluting its own resources and undertaking heavy burdens when private capital is available for use in meeting requirements. Petroleum and electrical power were mentioned. It was pointed out that the Government contemplates investing $300 million in a program which will do only little more than keep up with the increase in fuel consumption and not solve the basic fuel deficit. Thus the Government is handicapping itself in the realization of its economic recovery program. 4) The nature of Argentina's foreign trade means that its principal export earnings are in European currencies. Consequently, arrangements which Argentina will make with these European countries regarding convertibility are of basic importance to their program. Dr. Coll said that that is one of his major preoccupations and recalled that it was the first point he had mentioned to Mr. Bernbaum.

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[1] Source: Department of State, Central Files, 835.00/7–2056. Confidential. Drafted by Vaky.

Mr. Bernbaum observed that there had been several discussions about the problems of American investors such as the meatpackers. He thought it well to reiterate the desirability for prompt and concrete action in their solution. Finally, he said, he understood that the Mission upon its return from New York would begin discussions with the Eximbank. He noted that the IBRD would be a very logical institution to talk to as well since it could offer financing in the international market.

Dr. Coll asked if there were any suggestions as to how talks with the banks might be handled or what channel to use. Mr. Holland said he had a suggestion, and that was that Dr. Coll might suggest joint conferences with the two banks. He emphasized that he did not know if that would be possible, and he has not talked to the Banks about it. However, it seemed to him to be a useful procedure, and perhaps Dr. Coll might tactfully explore that possibility.

Dr. Coll asked if we had any suggestions as to what projects to propose to what bank. Mr. Holland said that that would be something the mission should decide. He noted that the mission could be guided by the spheres of activity of the two banks, noting that normally anyone desiring financing for purchases in the US went to the Eximbank and anyone desiring financing in the international market went to the IBRD. Dr. Coll raised the point of competition between the two banks, and Mr. Holland said that that had diminished greatly in the past several months.

Mr. Holland also pointed out that the main thing the Eximbank would look at was the possibility of success of the broad program, and individual projects would be examined in that light. It wanted to know "who would win the ball game," and consequently, it is important that the mission be able to demonstrate that the program it presents is sound overall. Mr. Holland said that it would be tremendously important if the American firms with problems in Argentina, such as the meatpackers and American & Foreign Power, could inform this government that they were satisfied. Dr. Coll said that he had no doubts about American & Foreign Power on that score.

Dr. Coll said that he felt he must be frank, and observed that he had definite instructions to the effect that the CADE problem could not be handled in any other way than that he outlined. Some differences might be possible in procedures, but the principles must be the same. Consequently, Argentina could not bargain on the point. Mr. Holland said that that was unfortunate because he did not believe that the banks would depart from the policy that loans would not be made where private capital was willing and able to do the job on reasonable terms. However, he felt it should not be said at this juncture that the matter was insoluble, but that we should try to work out the problem.

He said that he felt the objectives of the US and and Argentina were the same. The US wants to help Argentina, because it is in the selfish interest of the US that all countries in this hemisphere be stable and prosperous.

Dr. Coll said that as regards the convertibility question he felt that Argentina had a strong position vis-à-vis the European countries. Mr. Bernbaum observed that that was true, but that strong resistance from these countries might be expected. It was also pointed out that a favorable factor has been that the trend is toward more rather than less convertibility.

Dr. Coll confirmed his impression that the World Bank did not have the information he had provided the US group, and observed that he would have to begin from scratch with that institution. It was agreed that it would be desirable for the mission to provide the documents it had given us to the Bank for study as soon as possible so that talks could begin with some factual base.[2]

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[2] In telegram 70 to Buenos Aires, July 20, the Department informed the Embassy of the gist of this conversation. (*Ibid.*, 033.3511/7–2056)

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219. Memorandum of a Conversation, American Embassy, Panama City, July 23, 1956[1]

SUBJECT

Argentine Matters

PARTICIPANTS

United States	*Argentina*
The Secretary of State	The [Acting] Foreign Minister, Rear Adm. Rial
Assistant Secretary Holland	Ambassador Vicchi
Mr. Bernbaum (OSA)	

The [Acting] Foreign Minister of Argentina opened the discussion by saying that he was very interested in the economic conferences going on in Washington between representatives of Argentina and of the United States and that he would like for Ambassador Vicchi to discuss them.

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[1] Source: Department of State, Central Files, 835.00/7–2356. Secret. Drafted by Holland on August 21. This conversation took place during the Meeting of the Presidents of the American Republics.

Ambassador Vicchi then made more or less the following statement:

The Argentine representatives in Washington have conducted extensive conferences with a group representing various interested United States agencies. They have come to a conclusion on those discussions. It is their understanding that the United States government is sympathetically and favorably disposed to helping Argentina. At the conclusion of the conferences Mr. Holland stated that, while he could not speak either for the Export-Import Bank or the International Bank, it was his opinion that neither institution would view favorably the financing proposed by the Argentines in connection with a contemplated reorganization of the Belgian-owned electrical company serving Buenos Aires and known as CADE.

Mr. Holland made more or less the following remarks:

In December of 1955 he and Mr. Waugh had been in Buenos Aires where they met with Dr. Prebisch who is counseling the Argentine Government on various economic matters as well as with a number of members of the Argentine cabinet. Mr. Holland and Mr. Waugh were deeply impressed by the scope and thoroughness of their knowledge of the Argentine situation, particularly of the obstacles to reconstruction of the Argentine economy. They recognized that there might be two limitations on the kind of assistance that the United States could extend. The first of these being the capacity of the Argentine economy to sustain dollar debts since much of its earnings of foreign exchange are in sterling rather than in dollars. On this point Dr. Prebisch stated that the Argentine government had no desire to incur any debts in excess of their capacity to service them. At this point Ambassador Vicchi interrupted to say that this was indeed the policy of the Argentine government.

Mr. Holland said that the next possible limitation on our capacity to be helpful arose from our stated policies regarding the extension of loans to foreign borrowers. On this score, Mr. Holland and Mr. Waugh had stated in Buenos Aires, that, in general, it was the policy of the Export-Import Bank not to finance projects for which capital was available on reasonable terms from private sources.

At the conclusion of the conferences in Buenos Aires, Mr. Holland and Mr. Waugh invited the Argentine government to send a group of representatives to Washington to outline their economic program and to discuss possible United States assistance. The Argentine group now in Washington came as the result of that invitation.

Mr. Holland stated that we had concluded extensive conferences in the course of which the Argentine representatives have made available to us the economic data that we wanted and facts regarding the assistance that they hoped to receive from the United States. This amounts to about $500,000,000 in loans of which about $100,000,000 would be for the expansion of the facilities now owned by CADE and by an Italian electrical company known as ITALO. Other loans would be in the field of transportation and of agricultural and industrial equipment.

Mr. Holland added that it was his understanding that, this phase of our discussions having been concluded, the Argentine representatives were now going on to New York City for conferences with private financing institutions and that they would return to Washington about August 9 to establish direct contact with the International Bank and with the Export-Import Bank.

As regards the first limitation mentioned above, i.e., the dollar debt carrying capacity of the Argentine economy, Mr. Holland said that we had recommended to the Argentines that they undertake, if possible, to arrange with the banks for a coordinated and joint consideration of financing for the Argentine program. This would take into consideration the fact that the International Bank can lend foreign exchange of the kind that the Argentines earn in quantities.

As regards the other limitation mentioned above, i.e., the policy of the two banks not to finance projects for which private capital was available, Mr. Holland said that in his opinion the banks would not view favorably the proposal of the Argentine government regarding CADE. He understood this to be a proposal that a new corporation would be created. CADE would contribute to that new corporation its existing physical assets and would receive stock in return. ITALO would do the same thing. The Argentine government would then borrow the amount of dollars required for an expansion of these physical facilities and would contribute those dollars to the new corporation in return for stock. It would be expected that this operation would give the government control of the new corporation. Mr. Holland said that he recognized that the Argentine representatives had assured us that no such reorganization would be undertaken save by agreement with the two existing companies and also that no such proposition as this had, to his knowledge, been proposed to the banks. He did not believe that it would be favorably received, because it was our understanding that the two existing private companies are able and willing to finance expansion programs without intervention of the government. Nevertheless, he had recommended that the Argentines make their approach directly to the two banks. They could do this on a confidential basis without any publicity as regards the outcome of their proposal. If they found that the banks were unwilling to finance this particular type of operation, it might be possible to change it in some way to make it acceptable to the banks.

The Secretary of State then made more or less the following statements:

The United States is keenly and sympathetically interested in the efforts of the present Argentine government to reconstruct its economy. We are aware of the fact that they have the problem that many governments encounter under the same circumstances. As a rule, he said, a dictator does not fall until the economic resources of the country are exhausted, or to put it another way, he usually manages to exhaust the economic resources of the country before he falls.

The Secretary said that he had been very favorably impressed by the measures adopted by the new government of Argentina and that he particularly had in mind its adherence to the Caracas anti-communist resolution. He assured the Foreign Minister that he and others in the United States Government could see ahead a vista of close cooperative relations between the two governments that was better than anything that has existed between them for many years.

The Secretary added that he also realized that there were, in fact, two problems relating to the financing sought by the Argentine Government: one was the matter of capacity to pay dollars; and the other, the limitations imposed by the policies followed by the two lending institutions.

As regards the first problem, the capacity of the Argentine government to pay in foreign exchange, the Secretary said that he was aware of the long tradition of Argentine earnings in sterling and added that the IBRD is particularly well prepared to handle this kind of financing.

As regards the limitations imposed by our lending policies, he stated that each bank would make its own economic decisions but that each bank would also consider political considerations which occasionally produce different decisions than those which would be dictated exclusively by economic considerations. In fact, he said he had discussed this matter in general terms with Secretary Humphrey before leaving Washington and added that he was confident that neither bank would be controlled exclusively by political considerations. He concluded by assuring the Foreign Minister that the Department of State would oppose no political obstacles to financing and that, in advising on the political aspects of the loan, it would advise favorably.

220. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, August 9, 1956.

SUBJECT

Argentine Economic Negotiations

The crucial moment has arrived in our economic negotiations here with Argentina. The Argentine Mission spent nearly two weeks in New York and were told by private banks that no loans of consequence would be forthcoming until the World Bank and Export-Import Bank positions had been made known. The Mission has met separately with the World Bank and the Export-Import Bank for the past two days and it appears that the two banks might be willing to consult on the question of loans to Argentina, although the World Bank has refused to join in a three-way meeting.

The World Bank's position is categorical that it will have to send a survey mission to Argentina and that it may be six months to a year before any firm decision on a loan program can be reached. Meanwhile, the Argentine Mission is gravely preoccupied with its urgent needs, as for railroad equipment, and says that such a delay would have disastrous economic and political consequences in Argentina.

Our hope now is that the Export-Import Bank may be able to provide interim financing for Argentina's more pressing requirements under something like the "package program" which was suggested by you while you were in Lima. There is reason to believe the World Bank would not object to this interim program by the Export-Import Bank provided the Argentines act sensibly and do not attempt to borrow too much against their limited capacity to repay, especially in the dollar area.

Yesterday the head of the Argentine Mission, Dr. Coll Benegas, told me that he was going to return to Buenos Aires this week-end to report to his government and he seemed gravely preoccupied. Today he called to reveal that he was delaying his departure until some later date. This seems to be a favorable sign.

Recommendation:

That at an early opportunity you tell Secretary Humphrey that you believe a "package program" for Argentina, including interim financing by the Export-Import Bank, pending completion of a World Bank survey, is in the United States interest in order to maintain the momentum of our improved relations with Argentina on both the economic and political planes.[2]

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[1] Source: Department of State, ARA Files: Lot 59 D 509, Argentine Financial Mission. Secret.

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[2] Dulles called Humphrey at 9:19 a.m., August 10, just prior to a meeting between Humphrey and officials of the Export-Import Bank. According to a memorandum of that telephone conversation, prepared in the office of the Secretary of State, their conversation went as follows:

"The Sec. said he would only ask for 50 million for Argentina. He thinks there have been pretty good talks. He thinks the EXIM Bank is prepared to make an interim advance for railroad equipment. The Sec. does not think from the political standpoint the situation will stand deferring everything for 6–8 mos. and he hopes H. will feel disposed to go along with the proposal of EXIM Bank. H. said they are coming in in a few minutes." (Eisenhower Library, Dulles Papers, General Telephone Conversations) No record of Humphrey's meeting with Export-Import Bank representatives has been found in Department of State files.

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221. Memorandum of a Conversation, Export-Import Bank, Washington, August 13, 1956, 10:30 a.m.[1]

SUBJECT

Loans to Argentina

PARTICIPANTS

For the Eximbank: Messrs. Waugh, Sauer, Blowers, Brand, Stambaugh, Rowntree, Cady, Pollack
For the Department of State: Messrs. Prochnow, Holland, Rubottom, Vaky, Blodgett

A meeting between officials of the Eximbank and the Department of State took place at the Eximbank on August 13 at 10:30 a.m. The purpose of the meeting was to discuss recent developments in the Argentine situation and prospects for Eximbank participation in loan assistance to Argentina.

Mr. Waugh opened the meeting by briefly summarizing recent developments. He stated that the Argentine delegation returned to Washington from New York on August 7 after an apparently fruitless effort to obtain commercial bank loans in New York. Dr. Coll Benegas has visited the Bank and indicated Argentina's interest in loans in the power and transportation field, particularly for railway rehabilitation. Mr. Waugh has discussed the Argentine problem with Mr. Black of the IBRD who stated emphatically that the IBRD would be unable to make any commitment until a full scale mission had been sent to Argentina, probably not before October 1, and had presented its report. Mr. Black also indicated that it would not be possible to issue any urgent loans in the interim or to take over loans which might be authorized by the Eximbank. According to Mr. Waugh, Dr. Coll Benegas had indicated his desire to return to Argentina immediately but has now arranged to remain in Washington "indefinitely".

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[1] Source: Department of State, Central Files, 835.10/8–1456. Confidential. Drafted by John Q. Blodgett, Economic Development Division, Office of International Financial and Development Affairs, on August 14.

Mr. Waugh went on to say that during conversations held last week with Henry B. Sargent and William B. Stafford of American and Foreign Power Company, Inc., Mr. Sargent advanced the suggestion that his company might be interested in getting into the Buenos Aires power picture through a contribution of its claim against the Argentine Government for previously nationalized properties as an equity investment in a new company to take over the assets of CADE and ITALO. The new company would presumably include an Argentine Government contribution, either on an equity or debt basis, of its claim against CADE, plus possible additional new investment. This would be so organized that American and Foreign Power would have a 51% voting interest in the new company. Mr. Brand added that A.&F.P. would also sell to the Argentine Government its assets outside of the Buenos Aires area.

While this suggestion has not been discussed with the Argentine Government, Mr. Waugh expressed the view that it would offer an ideal solution to A.&F.P.'s claims, CADE's debts and the reorganization of the Buenos Aires power setup, which is a political liability so long as CADE continues in control. It would also give the Eximbank an opportunity to confine its new lending in Argentina to a private American corporation with which it has already had extensive dealings. He added that solely from the banking point of view, the Eximbank would not feel justified in increasing its present loan balance with Argentina ($76 million outstanding plus $60 million committed). He also felt that it would be unwise for the Eximbank to embark on a new loan program with the Argentine railways because (1) the Bank's contribution could not be sufficient to provide more than a shot in the arm, (2) Eximbank participation in railway lending might indefinitely delay a more logical IBRD participation, and (3) the railways (unlike the power companies) are operating at a deficit.

Mr. Prochnow expressed the view that the proposed concentration of Eximbank lending in the power field appeared reasonable and logical but that it did not solve pressing problems in the transportation field and did not yield the kind of immediate benefits which railway loans might be expected to yield. In reply Mr. Waugh pointed out that the Argentines might meet pressing needs in the transportation field through the utilization of proposed IMF drawings totalling $75 million. Mr. Rowntree mentioned also that Argentina had recently negotiated a 20 million pound loan from the U.K. (An Embassy Buenos Aires despatch reported that the loan amount was 30 million pounds.[2]) There was every evidence, according to Mr. Waugh, that the IBRD would eventually authorize loans needed by Argentina in the transportation field and in the power field outside of Buenos Aires.

Mr. Prochnow then raised the question of what answer was to be given to the Argentine delegation and suggested that if the Eximbank were to send a mission as soon as possible to Argentina coincidentally with the return of Dr. Coll Benegas, it would solve the latter's problem of not returning empty handed and would provide an opportunity for getting the Eximbank power loan proposal on the table for discussion in Argentina with the Argentine Government. Mr. Brand mentioned that Mr. Sargent is now in Chile and, if invited by the Argentines, could go to Buenos Aires to discuss possible investment in the Buenos Aires power network. Mr. Waugh emphasized the importance of leading the Argentines in such a way that the suggestion for the new private power company would appear to come from them rather than from A.&F.P. or the Eximbank. Mr. Sauer mentioned the total amount of investment involved as about $450 million of which the dollar costs (i.e. Eximbank contribution) would total between $100 and $150 million.

Mr. Holland indicated his strong view that any new Eximbank loans to Argentina should be part of a package deal including a solution not only of the problems of A.&F.P., CADE and ITALO, but also those of the American meat packers in Argentina who are being squeezed between high minimum prices of cattle and low ceiling prices for meat. Mr. Waugh replied that the Bank would undoubtedly take occasion during its conversations to bring up this problem, but that it did not appear desirable to make a solution of the meat packers' difficulties a necessary condition to the negotiations. Mr. Holland agreed, but expressed his assumption that no actual disbursements would be made by the Eximbank until the packers' problems were solved.[3]

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[2] Apparently a reference to despatch 74 from Buenos Aires, July 27. (*Ibid.*, 735.00(W)/7–2756)

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[3] In despatch 137 from Buenos Aires, August 16, Ambassador Beaulac enclosed four separate memoranda concerning his recent talks with the Argentine Ministers of Commerce and Industry, Treasury, Labor, and Agriculture. "It will be seen", he noted in part in his covering note, "that the ministers concerned with the meat packing problem state that the Government will proceed promptly to reach a settlement with the meat packers and that the ministers concerned with the power problem say that they will reach a prompt settlement with American and Foreign Power. The CADE problem is seen as more difficult of solution, but the ministers recognize the seriousness of this problem and the need of taking appropriate steps to solve it." (*Ibid.*, 835.00/8–1656) Beaulac was appointed Ambassador on May 10; he presented his credentials on June 1.

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222. Memorandum of a Conversation Between George Blowers of the Export-Import Bank and the Director of the Office of South American Affairs (Bernbaum), Washington, August 23, 1956[1]

SUBJECT

Argentine Loan Applications

While lunching with George Blowers today, we discussed the Argentine situation. He stated that he, Walter Sauer and Vance Brand had had a long and frank conversation with Dr. Coll Benegas, in which they made it clear that prompt action on the meat packers and American and Foreign Power problems would in effect be a prerequisite for action by the Export-Import Bank on Argentine loan applications.

Coll Benegas assured them that they had absolutely nothing to worry about on either problem and that action would surely take place in the reasonably near future to settle both of them. The Eximbank response was that the Argentines had been giving such assurances for a number of years without any results to date. Although they were reassured by the fact that Coll Benegas was one of those giving such assurances, they felt that he should know the Bank would find it extremely difficult to justify to its public, action on Argentine loan applications before the Argentines themselves had come through on their commitments to American business enterprise.

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[1] Source: Department of State, Central Files, 835.10/8–2356. Limited Official Use. Drafted by Bernbaum.

Blowers stated that all of the Directors were determined that no action would be taken on electric power in the absence of concrete action on American and Foreign Power. He inquired whether we felt in ARA that the same should apply to the relationship between other loan projects and the meat packers. I described our position as involving no concrete action on any Argentine loans prior to satisfactory action on the meat packers and American and Foreign Power. I expressed the opinion, with which Blowers agreed, that this was the best opportunity we have ever had to get action by the Argentines and that our failure to take advantage of it might result in the indefinite postponement of an improvement in the situations of the meat packers and American and Foreign Power.

Blowers stated that there was nothing clear as yet regarding what action the Bank will take on electric power. He and his colleagues in the Bank felt that Coll's negative reaction to the Sargent proposal indicated that this would not be satisfactory in the absence of drastic modification. So far as he knew, no decision had been taken on whether the Eximbank would be disposed to lend money for a new Government-owned power plant in Buenos Aires in the event that CADE were allowed to operate unmolested. The question discussed by us in this connection was whether private power enterprise would be ready to put up new money for CADE expansion or for the proposed superusina.

Blowers confirmed that present thinking in the Bank was for the extension of a $100 million line of credit on transportation. They were thinking specifically of six projects aggregating about $30 million. The question now being debated in the Bank was the manner in which an announcement of the Bank's readiness to lend the money could be tied in with action on American and Foreign Power and the meat packers. He also confirmed that the Bank was interested in sending a mission to Argentina to verify the actual state of Argentine railway equipment. Their concern at this time was whether the railroad beds were in sufficiently good condition to justify the apparent desire of the Argentines to concentrate on locomotives. I promised to send him some of the despatches we had from the Embassy on the subject.[2]

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[2] In despatch 169 from Buenos Aires, August 24, Ambassador Beaulac enclosed a memorandum of a conversation which he had on August 22 with Argentine Minister of Foreign Affairs Podestá Costa, Minister of the Treasury Eugenio Blanco, and Under Secretary of the Navy Arturo Rial. Blanco, he reported, "promised rapid action by the Government to settle (1) the meat packers' problem, and (2) the problem of American and Foreign Power." Beaulac pointed out that the Embassy would continue to insist on a prompt settlement of those two problems and recommended that "urgent and favorable consideration be given to Argentina's requests for loans in the field of railroad transportation." "I believe also," he continued, "that the President's fear that failure by Argentina to obtain some prompt concession may have adverse political effects is correct. Such a development would constitute a reverse for the United States in this area." (*Ibid.*, 835.00/8–2456)

In despatch 188 from Buenos Aires, August 29, Beaulac enclosed a memorandum of a conversation which he had that morning with Argentine Minister of Industry and Commerce Rodolfo Martinez regarding the power problem. Martinez insisted that his government was moving with reasonable speed toward reaching a solution with American and Foreign Power. On the other hand, Beaulac pointed out, American and Foreign Power "takes the view that nothing is being done. The Embassy is exploring this apparent contradiction." (*Ibid.*, 835.00/8–2956)

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223. Memorandum of a Conversation Between the Argentine Ambassador (Adolfo Vicchi) and the Assistant Secretary of State for Inter-American Affairs (Holland), Department of State, Washington, August 30, 1956[1]

SUBJECT

Financial Assistance for Argentina

The Ambassador said that Dr. Coll Benegas had dined the night before with representatives of the Export-Import Bank and had come away quite despondent at the course of negotiations. Dr. Coll had formed the impression that the Bank was willing to undertake a program of financing in the transportation field, but that it was unwilling to do any financing at this time in the field of power. He wanted to know whether this was true, and, if so, where the Bank was unwilling to enter the field of power. He asked whether it was because the Bank set as a condition precedent solution of the problems of the American & Foreign Power, or whether it was because the Bank was unwilling to see the Argentine Government construct the generating plant which it wants to construct for service to Buenos Aires.

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[1] Source: Department of State, Central Files, 835.00/8–3056. Confidential. Drafted by Holland.

I replied that I did not know what the Bank proposed to do; that I did not know what obstacles might exist to credits in the power field but that, as I had always told the Argentine representatives, I doubted that the Bank would extend credit for any project which any private enterprise was willing to finance.

The Ambassador said that he understood that the Bank might be willing to open its financing with a credit of approximately $100 million; that the Argentines felt this was far too little; that the Export-Import Bank and International Bank had authorized loans amounting to almost $1 billion to Brazil and that credits to Argentina were disproportionately low.

I replied that if the Bank were willing to extend a line of credit, as he suggested, of $100 million and at the same time indicated any willingness to consider other projects, I would feel that the Coll Benegas mission had achieved an outstanding success. I said that I felt that as important as the amount of the initial loan was the willingness of the Bank to enter the field. This would permit the development of other projects in the future.

The United States is entering a period of presidential campaigns. The Argentine Government should do everything that it can to avoid any possibility that the granting of financing to it by the Export-Import Bank might provoke issues in the forthcoming campaign. Therefore, it should undertake to advance its negotiations for settlement of the problems of the American & Foreign Power and of the meat packing industry to such a point that the United States citizens interested in those problems would not criticize the United States Government if it extended credits to Argentina. I said that I understood that Dr. Coll Benegas intended to visit Chicago on the 4th and 5th of September, and that this would give him an opportunity to give the meat packing representatives such assurances as would achieve the objective that I had indicated.

224. Minutes of the 249th Meeting of the National Advisory Council on International Monetary and Financial Problems, Washington, September 6, 1956[1]

[PARTICIPANTS]

Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
  Mr. Elting Arnold
  Mr. Henry J. Bittermann
Mr. Herbert V. Prochnow, State Department
  Mr. Jack C. Corbett
  Mr. Maurice M. Bernbaum
  Mr. Viron P. Vaky
Mr. Marshall M. Smith, Commerce Department
  Mr. Clarence I. Blau
Governor M.S. Szymczak, Board of Governors, Federal Reserve System
  Mr. J. Herbert Furth
Mr. Lynn U. Stambaugh, Export-Import Bank
  Mr. Hawthorne Arey
  Mr. Vance Brand
  Mr. R.H. Rowntree
  Mr. Charles Shohan
Mr. John B. Hollister, International Cooperation Administration
  Mr. Arthur E. Burns
Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. John S. Hooker, International Bank
Mr. Earl L. Butz, Department of Agriculture, Visitor
Mr. John H. Dean, Department of Agriculture, Visitor
Mr. Rulon Gibb, Department of Agriculture, Visitor
Mr. Oscar Zaglits, Department of Agriculture, Visitor
Mr. Harry B. Wirin, Department of Agriculture, Visitor
Mr. Edmond C. Hutchinson, Bureau of the Budget, Visitor
Mr. George H. Willis, Acting Secretary
  Mr. C.L. Callander, NAC Secretariat

2. Proposed Export-Import Bank Credits in Argentina

The Council considered the proposal for Ex-Im Bank credits of $100 million in Argentina (see NAC Document No. 1985[2] for original proposal). The Chairman referred to a revision of the Export-Import Bank proposal which had been distributed at the meeting (see NAC Document No. 1985 (Revised)[3]), noting that the revisions in the proposal had resulted from inter-agency discussions of the problem. He invited the representative of the Bank to comment further.

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[1] Source: Department of State, NAC Files: Lot 60 D 137, Minutes. For National Advisory Council Use Only.

[2] Not printed. (*Ibid.*, Documents)

[3] Reference is to a letter of of September 6 from Edward S. Conger, Assistant Secretary of the Export-Import Bank, to C. Dillon Glendinning, Secretary of the NAC, in which the Export-Import Bank expressed its willingness to authorize a credit of $100 million to Argentina to assist in the purchase of U.S. equipment and services, with the understanding that at least $15 million of this credit would be utilized in the private sector. (*Ibid.*)

Mr. Brand referred to the summary in NAC Document No. 1985 (Revised) of the steps taken by the new Argentine Government to provide the basis for its economic recovery program. He commented that the Ex-Im Bank's proposal was not a response to all the capital requirements of the Argentine rehabilitation program, but covered only what the Bank felt could be done within the limits of Argentine financial stability and the available resources of the Bank, to meet emergency needs, primarily in the field of transportation. Argentina hoped to increase its exports to the prewar level (to about $1.5 billion equivalent), which could not be done without substantial improvement in Argentine railway facilities. If the Council approved the proposal before it, the Bank would send a technical mission to Argentina, and would consider specific credit proposals on the basis of the findings of the Mission. The $100 million would thus be used on a project basis subject to the findings of the Mission. In making credits the Bank intended to take into account the progress made by Argentina toward financial stability and toward satisfactory treatment for private investors. The Bank had had frank talks with the Argentine Mission on the problems of private investors, and was satisfied that there was a beginning of genuine negotiation between Argentina and the principal U.S. investors. The Bank had consulted the International Monetary Fund and the International Bank, and interested U.S. Government agencies, in the development of the $100 million program. He concluded by stating that the Bank did not intend to make public its intent to earmark $15 million for loans in the private sector, because the Bank did not wish to encourage the development of applications for short-term credits and because the Bank wished to leave itself free to undertake projects in the field of electric power if the situation in that field became clarified.

After a brief discussion the Council agreed that it would be appropriate to omit from public statements reference to the $15 million earmark for credits in the private sector of the Argentine economy.

Mr. Hollister commented that ICA was generally interested in the economic progress and development of Argentina, though they had no aid program there at present. He said that the Ex-Im Bank credit, which met only a part of the Argentine request, might be followed by pressure for an ICA program to finance development in Argentina.

The Chairman commented that he would have preferred a limit of $50 million, but that in view of the magnitude of the problem and the safeguards that were contemplated, the proposed $100 million commitment was acceptable as an outside limit. Mr. Hooker informed the Council that the International Bank had been fully informed of the proposed Ex-Im Bank credit; the Chairman commented that the present loan proposal was in effect an emergency item, and that the IBRD's approach to the Argentine problem would involve a more leisurely investigation. In response to a question about the prospective Argentine reaction to a credit of $100 million after requesting aid totalling $1.2 billion, Mr. Brand explained that the Bank had brought the problem to the Council early in the negotiations in order to have in hand a final U.S. Government decision to communicate to the Argentine delegation.

After a brief further discussion the Council agreed on a revision of paragraph 3, page 3, of the paper (see NAC Document No. 1985, Second Revision), and on a revision of the draft action. The following action was taken (Action No. 915):

"The National Advisory Council advises the Export-Import Bank that it offers no objection to consideration by the Bank of a line of credit of $100 million to Argentina to assist in financing the purchase of U.S. equipment and services required for projects of an urgent nature in the private and public sectors of the Argentine economy, including transportation, industry and agriculture. In making specific loans under this line of credit the Bank will give due consideration to the progress which Argentina continues to make in attaining monetary and financial stability and in according satisfactory treatment to private investors. It is understood that at least $15 million of the line of credit would be utilized in the private sector. It is also understood that credits authorized in the public sector would bear interest at the rate of 5 percent per annum and would be repaid over a period of approximately 18 years, including a waiting period on repayments of principal of approximately 4 years."[4]

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[4] In telegram 233 to Buenos Aires, September 10, the Department informed the Embassy that the Export-Import Bank had formally approved a line of credit of $100 million to Argentina. The Bank would send a mission to Argentina headed by one of its directors during the first part of October to make studies in the public and private sectors. Allocations would then be made by the Bank after the return of the mission. (*Ibid.*, Central Files, 835.10/9–1056)

In telegram 253 to Buenos Aires, September 14, the Department informed the Embassy that it had communicated the Export-Import Bank's decision to Coll Benegas on September 11. The telegram reads in part: "Coll critical of amount and urged serious consideration adjustment to 125 or 130 million. Argued that latest official estimates placed minimum transportation requirements to move increased crops at 112 million dollars, to which 15 million for private sector could be added. Bank informed him that not feasible change figure already agreed on by interested US agencies." In conversation with Coll, the Department pointed out, U.S. officials have stressed the following points: "US considers Coll mission very successful; establishment of 100 million earmark is very favorable action and note should be taken of almost unprecedented procedure establish line of credit before specific projects evaluated; US

(Continued)

[Here follows discussion of matters unrelated to Argentina.]

(Continued)
considers this step as only beginning period close cooperation Argentina; joint discussions with Argentine Government on economic recovery program to continue." (*Ibid.*, 835.10/9–1456)

Telegram 254 to Buenos Aires, September 14, transmitted the text of the joint announcement regarding the Export-Import Bank credit which was released on September 17 in Buenos Aires by the Argentine Government and in Washington by the Export-Import Bank. (*Ibid.*)

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225. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, September 13, 1956.

SUBJECT

Appointment with Argentine Ambassador, September 13, 3:30 p.m.—Financial Assistance

Background:

You have an appointment today with the Argentine Ambassador, Dr. Adolfo Vicchi, regarding Argentina's request for financial aid.[2] We understand that the Ambassador is under instructions to convey to you his Government's disappointment over the Eximbank's decision and to request an upward adjustment. As you know, the NAC and the Bank approved a $100 million line of credit to finance urgent requirements in public and private sectors for transportation, industrial and agricultural equipment, allocation of which will be made following an on-the-spot survey by a special Bank mission. The Bank refused to make commitments in electric power since present Argentine proposals in this field contemplate Government projects for which private capital is believed available. It is, however, prepared to consider power development projects at such time as broad power principles are clarified in relation to the Bank's basic policy on financing public and private projects.

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[1] Source: Department of State, Central Files, 835.10/9–1356. Confidential. Drafted by Vaky and cleared by Prochnow.

[2] In a memorandum to Dulles, September 8, Holland pointed out that Vicchi requested an appointment with the Secretary for September 13 in order to discuss Argentina's request for financial assistance. "Considering the importance with which the Argentine Government views this matter in terms of relations between the two countries and the Ambassador's deep desire to see you," Holland wrote, "I believe that it would be desirable for you to grant him an appointment on the date requested." Dulles approved Holland's recommendation. (*Ibid.*, 835.00/9–856)

The Ambassador may be expected to argue as follows:

1. The credit is inadequate to meet emergency needs in even one field. "Boiled down" estimates of urgent requirements in railroads alone exceed $100 million. The figure moreover bears no relation to any estimates made for specific projects.

2. Great expectations of at least $250 million were roused in Argentina, and the Government looked to the US for help in this critical matter. Disappointment will be deep and will reduce the Government's ability to justify a policy of cooperation with the US. The US is losing an opportunity here to establish really close friendship.

3. While Argentina understands the Bank's policy in the power field, hers is a special case, in which needs are urgent and in which domestic politics dictate temporary Government participation in power development pending transfer to private hands. The US should understand these domestic factors and help in this special case.

I recommend that you answer these points as follows:

1. Argentine estimates of its needs were carefully considered. However, the Bank was not in a position to confirm immediately precisely what the needs are, and recognizing the urgency of the situation it decided on a global credit to be allocated as specific on-the-spot studies indicate.

2. You should stress US desire to help Argentina pointing out that the question was never whether to help but only how to best do so. You should point out the almost unprecedented character of the Bank's willingness to establish a line of credit before determining specific allocations, and emphasize that this decision represents only the initiation of close economic cooperation between the two countries.

3. With regard to power, you should say that the US fully appreciates the internal limitations governing Argentine action in this regard. The Bank, however, has no choice but to adhere to its basic policy which is consistently applied world-wide, and cannot deviate in this case. You should point out that it has not closed the door in the power field, but is prepared to consider projects if the situation modifies.

Should the Ambassador specifically request that you seek to have the credit adjusted upward, you should say you see no possibility of that at this time. You should point out, however, that the information which the Eximbank will gather as to specific magnitudes of urgent requirements will be very important.

You will recall that the Ambassador discussed this problem with you at Panama. I attach a memo of conversation covering that discussion,[3] should you wish to review it in anticipation of this meeting.

Mr. Maurice Bernbaum, Director of OSA, will accompany the Ambassador.

Recommendation:

I recommend that you discuss this matter with the Ambassador along the foregoing lines.

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[3] Document 219.

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226. Memorandum of a Conversation, Department of State, Washington, September 13, 1956[1]

SUBJECT

United States-Argentine Loan Negotiations

PARTICIPANTS

The Secretary
Señor Dr. Don Adolfo A. Vicchi, Ambassador of Argentina
Maurice M. Bernbaum, Director for South American Affairs

Ambassador Vicchi stated that he wished to consult with the Secretary regarding some of the problems which had arisen in connection with the loan negotiations of the Argentine Financial Mission with the Export-Import Bank. He wanted first to express to the Secretary his appreciation and that of the Financial Mission for the invaluable assistance and understanding displayed by the Department of State in the discussions. He also wanted to reaffirm the desire of his Government for the closest possible relations with the U.S. and the belief that this attitude was reciprocated here.

Ambassador Vicchi stated that his Government had instructed him to express to the Secretary its disappointment over what was considered to be the limited results achieved by the Argentine Financial Mission. The $100 million loan decided upon by the Export-Import Bank fell far short of the minimum requirements set forth in the negotiations which were looked upon by the Argentine Government as essential to meet the first and urgent stage of its program of economic recovery. He stated that the expectations of his Government had been much higher owing to: (1) The belief that the financial credit and ability of the Argentine Government to repay a much higher volume of loans had been demonstrated during the negotiations; (2) repeated indications of the desire of the U.S. Government to enter into close political and economic relations with the Argentine Government; and (3) a comparison with the financial assistance rendered other countries (he was thinking of Brazil).

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[1] Source: Department of State, Central Files, 835.10/9–1356. Limited Official Use. Drafted by Bernbaum.

The Ambassador then stated that despite the disappointment in the outcome of the negotiations, the next step was to make the best of the existing situation. He felt in this regard that the division of the $100 million into $85 million for transportation and $15 million for private enterprise represented an undue restriction on the amount to be allocated to the most urgent field of transportation. He, therefore, requested the Secretary's assistance in having the whole amount authorized for transportation. The Ambassador added that it would be even better if it were found possible to raise the allocation for transportation to $112 million, which represented the latest estimate of his Government regarding absolute minimum requirements in transportation to permit the marketing of the increased crops projected for the economic recovery program. His Government would, in such case, welcome an additional amount for urgent projects in the private field but would be content to postpone such projects if it were decided that additional funds could not be made available at this time. Ambassador Vicchi asked also for the Secretary's assistance in having included in the public announcement of the loan a statement to the effect that the Argentine and U.S. Governments were to continue discussing projects involving Argentina's economic recovery program.

The Secretary stated that although familiar with the overall aspects of the problem, he was not acquainted with some of the details raised by the Ambassador. He was aware that the final decision involved an overall loan of $100 million, of which up to $85 million would be allocated to urgent projects in the public field and $15 million for private enterprise in industry and agriculture. His initial impression, upon learning of the $100 million loan, was that it far exceeded his earlier expectations when it appeared that the pattern of Argentine trade would limit its ability to repay dollar loans. He turned to Mr. Bernbaum at this point, recalling a meeting held in his office when the matter was discussed and ways and means were being sought to get out of the dilemma thereby presented.[2] Under the circumstances, and taking into consideration the normal procedures of the Export-Import Bank, he could not help feeling that the $100 million line of credit represented a distinct achievement for the Argentine Financial Mission.

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[2] Apparently a reference to the meeting of July 16; see Document 216.

With regard to the specific requests made by Ambassador Vicchi, the Secretary expressed the opinion that it would not be feasible to increase the amount of the line of credit. He thought that this amount was the result of lengthy discussions between representatives of the various U.S. agencies concerned and that there was no reason to believe that a change could be effected. Although not aware of the factors leading to the division of the $85 million for transportation and $15 million for private enterprise, he expressed his readiness to consult on the matter with a view to seeing what could be done. He turned at this point to Mr. Bernbaum to inquire whether he knew of the reason for the division. Mr. Bernbaum stated that the division was due to the belief that some part of a loan of this magnitude should be devoted to private enterprise and not concentrated wholly in the public sector. The Secretary also expressed his readiness to look into the possibility of having included in the public announcement a statement to the effect that the two Governments would continue their joint discussions regarding the Argentine economic program.

Ambassador Vicchi expressed his appreciation in departing for the Secretary's interest in the matter.[3]

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[3] In a letter to Ambassador Beaulac, September 14, Vaky summarized recent developments regarding the question of financial assistance to Argentina. He informed Beaulac of Dulles' conversation with Vicchi on September 14. He also summarized a conversation, along the same lines, which Vicchi had with Under Secretary of the Treasury Burgess on September 14 as well as several "long chats" between Vicchi and Brand. "By and large," Vaky concluded, "the outcome is fairly good. It was certainly much more than we had thought we could get when this whole affair first started. (Dulles told Vicchi as much.) Also the facts of the case are that the Bank may well allocate the full $100 million to transportation. Likewise, the Bank is quite prepared to consider additional financing. In a very real sense, therefore, this credit represents only the initiation of a period of cooperation of a nature that has never taken place with Argentina." (Department of State, ARA Files: Lot 59 D 509, Argentine Financial Mission)

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227. Editorial Note

On October 5 Vance Brand arrived in Argentina for the first of two trips which he undertook for the Export-Import Bank during the autumn of 1956 in order to assess Argentina's economy and evaluate possible projects for which the $100 million Export-Import

Bank loan might be used. Documentation concerning Brand's trip is in Department of State, Central Files 835.10 and 835.2614.

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228. Memorandum of a Conversation, Department of State, Washington, October 23, 1956, 4 p.m.[1]

SUBJECT

Military Equipment for Argentina

PARTICIPANTS

Argentine Ambassador, Dr. Adolfo A. Vicchi
ARA—Mr. Rubottom
OSA—Mr. Bernbaum
OSA—Mr. Vaky

Mr. Rubottom referred to the request for military equipment which had been received from the Argentine Government. Mentioning past indications that Argentina was desirous of receiving grant military aid, he said that it was not possible under present US policy to extend such aid in the absence of a bilateral military pact. He observed that the US fully recognized the factors which for the time being prohibited Argentina from concluding such an agreement and stated that for that reason we had carefully studied other possibilities for making military equipment available to Argentina. He then handed the Ambassador a memorandum outlining pricing and availability estimates on the ground and air equipment which the Argentines requested in their memorandum of May 24.[2] He indicated that these were approximate estimates; that the prices might be reduced if non-essential items were not purchased or if less expensive items were substituted. He also observed that the more flexible pricing formula contained in recent amendments to the Mutual Security Act[3] had not yet been implemented. Once this was done, there might be a possibility of further price reductions. He suggested that the Ambassador might wish to have his Service Attachés discuss with Defense officials the technical details of equipment available; how they might meet their needs; and study details of pricing and availability.

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[1] Source: Department of State, Central Files, 735.56/10–2356. Confidential. Drafted by Vaky.

In a memorandum to Rubottom, October 16, Bernbaum discussed Argentina's pending request for military equipment. He recommended that the United States loan naval vessels to Argentina, "since the latter has limited funds to spend on equipment and since grant aid is not feasible. A loan of two submarines and two destroyers is justifiable both militarily and in terms of what we are loaning other Latin American countries." In the meantime, he suggested, Department officials should meet with Vicchi to explain to him the U.S. position on military aid. (*Ibid.*, 735.56/10–1656)

[2] This pricing and availability study was enclosed in a letter from William M. Leffingwell, Special Assistant to the Deputy Assistant Secretary of Defense (ISA) for Military Assistance Programs, to Barnes, dated September 5. (*Ibid.*)

With respect to naval vessels Mr. Rubottom said that State wished to study further with Defense possibilities in this regard, particularly that of loaning the vessels. The matter was still under study and hence he could not give any estimate of what might possibly be done in this regard.

Mr. Rubottom said that he also wished to make clear that even if a bilateral military pact were concluded with Argentina, the amount of military grant aid which could be extended thereunder would necessarily be limited since it would have to fit into the overall hemisphere program. He thought that the Argentine armed services should be fully aware of this. He also indicated that matters such as the Air Mission Agreement or a South Atlantic Regional Pact[4] would not be a substitute for a MDA agreement insofar as grant aid was concerned.

Mr. Rubottom also handed the Ambassador a summary of the requests that had been made by the Provisional Government and the action taken on each.[5] He said that it might be useful to consider the record in this case in view of indications that some of the Argentine military leaders are a little restive concerning US response. Ambassador Vicchi said that Argentina did not desire to become a powerful military power nor have the most modern armed forces in Latin America. The Argentine military, however, felt very deeply that it needed new equipment because despite large amounts of money spent on the military by Perón, very little of this had gone into equipment. Consequently, arms were antiquated and in bad shape. The military felt that it must have reasonably good equipment primarily to insure internal order and stability and support for the present government. He said, moreover, that it must be remembered that the present government is essentially a military government and hence the desires of the military for equipment must be considered in that light.

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[3] Reference is to the Mutual Security Act of 1954 (P.L. 665); for text, see 68 Stat. 832.

[4] On July 31, the Argentine Foreign Office announced publicly that it had extended invitations to Brazil and Uruguay to attend a meeting in Buenos Aires to consider organization for the defense of the South Atlantic.

[5] Not found in Department of State files.

Vicchi said that the Army and the Air Force could buy excess equipment or used equipment, but that in any case Argentina did need ships. Consequently, Argentina was very interested in the possibilities of obtaining vessels on a loan basis. He felt sure that Argentina would agree to specific commitments for the use of these vessels in hemispheric defense missions if such commitments did not have the connotations of a military pact. A bilateral pact, he observed, would be considered by many Argentines as a military alliance and arouse strong domestic opposition.

Ambassador Vicchi said that he would like to bring his three Service Attachés for a discussion with Department officials concerning the general question of equipment acquisition and what the Attachés could or could not do in their discussions with Defense. He said this would have two advantages. It would make the Service Attachés feel that we are all working on the problem and, secondly, that it would serve to clarify the procedures and possibilities and eliminate confusion or mistaken ideas. It was agreed that such a meeting would be held. (This meeting is tentatively scheduled for October 30.) The Ambassador said that if it would be possible to obtain even a small amount of equipment immediately on favorable pricing terms this could tranquilize the anxieties of the Argentine military.

Before leaving the Ambassador pleaded for flexibility in considering these requests. He said that the US tended to be somewhat inflexible at times and referred to what he termed the missing of an opportunity for a great psychological victory in the matter of the Eximbank loan, remarking that inevitably the $100 million credit is compared unfavorably with Italy's offer of almost unlimited loans. It was difficult, he said, to explain to the man in the street how a $100 million out of a total amount of $1,800,000,000 loaned to Latin America by the Eximbank could be construed as very favorable consideration of Argentina by the US. If Poland asks for aid he is sure that the US will go all out to detach Poland from the Soviet orbit. Similar thinking, he said, should be applied to Argentina where there is a strong focus of sentiment for close understanding and friendship with the US. The US must help strengthen that focus for, if it is weakened, Argentina will return to its previous nationalistic, isolationist viewpoint. He, therefore, asked that we consider these factors in making decisions on requests for military equipment.

229. Letter From the Deputy Under Secretary of State for Politicai Affairs (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, October 31, 1956.

DEAR MR. GRAY: I refer to Mr. Leffingwell's letter of September 5 to Mr. Barnes[2] which transmitted a pricing and availability study on the list of equipment requested by Argentina for its armed services.

That letter states that the Department of Defense would be prepared to loan two submarines and two destroyers to Argentina, subject to Congressional approval and to Argentina's willingness to obligate these vessels to hemisphere defense missions "under a mutual assistance arrangement similar to those made with other Latin American nations."

While Argentina has shown no inclination to conclude a general military assistance agreement, the Department of State has reason to believe that it would be prepared to make specific commitments regarding the use of naval vessels in hemisphere defense missions in, for example, an exchange of notes. There are, of course, affirmative reasons of both a military and political nature for the United States to assist Argentina in acquiring military equipment. Particularly relevant is the fact that the present pro-United States Government in Argentina is largely military-controlled and supported. Having expressed its frank desire to work more closely with us and to seek aid from us in several fields, including the military, the extent to which we can meet legitimate military aspirations is bound to influence Argentine judgement of the value of continued cooperation with us.

I therefore believe that we should explore every feasible means of meeting requests for equipment in order to mitigate inevitable Argentine disappointments that might adversely affect that country's willingness to cooperate with us. This is particularly true since even if a MDAP with Argentina were possible the amount of United States grant assistance which could be extended thereunder would necessarily be limited and would not meet Argentina's aspirations.

One way of accomplishing this objective would be to loan naval vessels to Argentina, since the latter has limited resources with which to buy equipment outright or on credit and since grant aid is not feasible. Accordingly, I would appreciate being informed whether specific Argentine hemisphere defense commitments made in an exchange of notes would be acceptable as a basis for loaning naval vessels and if so, what the nature of those specific commitments should be. I would also appreciate being informed, should a loan of vessels not be feasible, whether it would be possible to sell Argentina vessels of the type requested under the reimbursable aid provisions of the Mutual Security Act.

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[1] Source: Department of State, Central Files, 735.5–MSP/10–3156. Secret. Drafted by Vaky. In a memorandum to Murphy, October 25, Rubottom discussed the possible loan of U.S. naval vessels to Argentina and enclosed this proposed letter to Gray which Murphy approved without change. (*Ibid.*, 735.5621/10–2556)

[2] See footnote 2, *supra*.

I believe that should a loan prove feasible, careful consideration should be given to the number of vessels offered. Since two submarines and two destroyers are approximately the same amounts as those being loaned to Brazil and Chile, these latter countries might be resentful at Argentina's acquisition of the same number of vessels without an MDAP. We would, of course, wish to avoid embarrassment in our relations with Argentina's neighbors or risking damage to our long and close military collaboration with them. We have asked our Embassies in Rio de Janeiro, Santiago, and Buenos Aires for their preliminary estimate on this point. I would appreciate your views as to what number and types we could appropriately loan Argentina, should that be possible, without damaging our relations with Brazil and Chile.

Ambassador Vicchi has been furnished with the balance of the information contained in Mr. Leffingwell's letter regarding the Air Force and Army materiel, and has been apprised of our policy with respect to grant aid. The Ambassador was also informed that the Department of State wished to consult further with the Department of Defense regarding the availability of naval vessels and that no estimate of the possibilities in this regard could yet be given. A memorandum covering this conversation has been sent to your office separately.[3]

Sincerely yours,

Robert Murphy[4]

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[3] In a letter to Murphy, December 26, Gray explained that the Department of Defense considered that the Mutual Defense Assistance Agreement of January 8, 1951, between the United States and Argentina "constitutes a basic country-to-country agreement for the loan of naval ships to Argentina." "The Department of Defense," he added, "reaffirms the position that the naval vessels in question are available for loan to Argentina; however, if the Department of State does not consider the loan to be feasible from a political or economic point of view, the Department of Defense will reconsider the Argentine request on a sale basis. It should be noted, however, that the existing provisions of the Mutual Security Act do not authorize the sale of these vessels." (Department of State, Central Files, 735.5–MSP/12–2656) For text of the Mutual Defense Assistance Agreement between the United States and Argentina, signed on January 4 and 8, 1951, and entered into force on January 8, see 3 UST 2735.

[4] Printed from a copy which bears this typed signature.

230. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Under Secretary of State (Herter)[1]

Washington, March 25, 1957.

SUBJECT

Argentine Cabinet Crisis

The Argentine Provisional Government is passing through one of its most critical periods. The following is a summary of the present situation.

The Government is facing its second cabinet crisis in as many weeks. Two weeks ago the coalition of armed forces, which is the core of the present regime's support, threatened to break up with the disciplinary arrest and resignation of the Undersecretary of the Navy, Admiral Rial, one of the heroes of the revolution that overthrew Peron. This arrest was prompted by Rial's criticism of Government officials and economic policies which was leaked to the opposition press. The military leadership coalesced around President Aramburu, however, even though a rift between the Navy and Army seemed imminent at one time.

Now the Government faces a more basic and far-reaching problem in connection with economic policy. Argentina is in serious economic straits. Its balance of payments deficit in 1956 was $200 million. Its gold and dollar reserves were reduced in 1956 by almost $100 million and are now approximately $234 million. With about $60 million in expected 1957 export earnings lost by severe drought damage to the corn crop, and the cost of petroleum imports increased by almost $100 million, a balance of payments deficit of $200 million is expected again this year. The deficit with the dollar area is expected to be about $250 million. At this rate reserves will be virtually exhausted by the end of 1957. The internal budget has a deficit of $700 million (14 billion pesos), and the cost of living increased 17% last year.

The Minister of Finance, Dr. Verrier, has proposed an austerity program to regain a viable position. He has proposed the elimination of subsidies on transport, fuel and electric power; reduction in official expenses by dismissing personnel and eliminating some services; postponing half of pay increases for all ministries; heavier taxation; abolition of a fixed exchange rate; free importation of capital goods and machinery; removal of price controls but freezing of wages; adoption of a definite policy of free enterprise.

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[1] Source: Department of State, Central Files, 735.13/3–2557. Confidential. Drafted by Vaky. A copy was sent to Murphy.

This program is backed by President Aramburu and apparently by the armed service ministers. Five civilian members of the cabinet, however, have threatened to resign if the plan is adopted, and Dr. Verrier has said he will resign if it is not. Last week the President called in the leaders of twelve major political parties to listen to the Finance Minister's appraisal of the situation, apparently hoping to win their support or some constructive counterproposals. These leaders, however, showed no sympathy for any belt-tightening program with general elections scheduled for the end of this year.

The President is now faced with the dilemma of abandoning the austerity program and risking continued economic deterioration, or reforming the cabinet to carry it out and risking political unrest and possible attempted coups. He himself has made public his support for an austerity program. At any rate, this crisis, which has split the cabinet, may well provoke basic changes in the composition and nature of this Government, if it does not provoke its fall. The present leadership is as pro-US as any regime in recent history, with the small likelihood of any probable alternative regime being as friendly. Consequently, the ability of the present leaders to ride out this crisis, hold together and come out of the economic crisis, is of concern to the US.[2]

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[2] In a memorandum to Herter, March 26, Rubottom summarized the latest developments in the Argentine cabinet crisis. He reported that the Argentine Government had announced its acceptance of Roberto Verrier's resignation as Minister of Finance and his replacement by Adalberto Krieger Vasena, who had been a member of the Argentine Financial Mission to the United States. The memorandum reads in part as follows:

"The appointment of Dr. Krieger indicates no particular change in economic philosophy by the Provisional Government. However, the acceptance of Dr. Verrier's resignation indicates that President Aramburu has decided opposition is too severe to the austerity program drawn up by Dr. Verrier. The Government will apparently not attempt to put this plan into effect, but will probably try some modified program. This in turn indicates that economically desirable solutions are being subordinated to a politically volatile climate. It remains to be seen whether in this political environment the Government can halt further economic deterioration." (*Ibid.*)

231. Memorandum of a Conversation, The White House, Washington, April 10, 1957[1]

SUBJECT

Call of Dr. Gainza Paz, Editor of *La Prensa,* Buenos Aires, Argentina, on President Eisenhower

PARTICIPANTS

President Eisenhower
Mr. James Hagerty, the President's Press Secretary
Dr. Alberto Gainza Paz, Editor of *La Prensa,* Buenos Aires, Argentina
ARA—Mr. R. R. Rubottom, Jr.

The President and Dr. Gainza Paz exchanged greetings with the latter stating that he was delighted to see the President again after having met him at Columbia University when he had been awarded one of the Maria Moors Cabot prizes in journalism. The President recalled this meeting and mentioned that he had given very careful consideration back in 1953 as to whether his brother, Dr. Milton Eisenhower, should go to Buenos Aires at the time of his trip to South America, primarily because of his great concern over the strong feeling in the United States against the Peron dictatorship and particularly his closing down of *La Prensa* and the imposition of such strict censorship. He added that he had finally decided that the trip might be worthwhile and that he gave his brother instructions to tell Peron that the best way for him to improve relations with the United States was to lift censorship against the three American wire services and restore *La Prensa* to its real owner.

Dr. Gainza Paz came to his point quickly, handing the President a letter from President Aramburu.[2] The President read the brief communication and told Dr. Gainza Paz that he was happy to welcome him on behalf of President Aramburu.

Dr. Gainza Paz related that he had lunched with President Aramburu on March 25, the day before his departure from Buenos Aires for the United States, and that the only others present were Vice President Rojas, and the President's Press Secretary, a former member of the *La Prensa* staff. He reminded the President that he had never participated actively in politics in his country, that he was primarily an editor, but that he had agreed to accept this mission because of its great importance to his country. He said that Argentina was at the most important moment of its history and that its people would soon take a decision which he hoped would permanently restore a democratic system in the country. He said that in a way it was unfortunate that the Argentine people had not had the searing experience of a devastating war, such as the people of France and Italy had gone through, because it might be easier for the Argentines to take some of the difficult but necessary steps to restore democracy in their country with both economic and political freedom. He pointed out that, following 12 years of Peron rule, the Argentine people really needed a "brainwashing" in order to restore their capacity for self-dependence and orderly thinking.

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[1] Source: Eisenhower Library, Whitman File, International File. Secret. Drafted by Rubottom. A somewhat different version of this conversation, which bears no indication of a drafting officer, is *ibid.,* DDE Diaries.

[2] In the letter, dated March 25, Aramburu stated that he considered the visit of Gainza Paz to be a "direct and personal contact" which "may render benefits to the Americas and for our two countries." (*Ibid.,* International File)

Dr. Gainza Paz said that Peron left the country in an economic shambles. He said that the country desperately needed economic help at this time. President Aramburu as well as Vice President Rojas, representing the two major armed forces of the nation, both genuinely want to relinquish their responsibilities to a constitutional government, even though there are some close advisers who would prefer that the upcoming elections be postponed. The constituent assembly election has been set for next July and the general elections will be held in February of 1958, with the Aramburu Government turning over its powers to the duly elected authorities on May 1, 1958. Dr. Gainza Paz stressed that even though there is a provisional government in his country, the democratic way of life is being restored. The press is free, the people are free to meet as they please and to say what they please; he alluded to a recent meeting of the Frondizi faction of the Radical Party when, due to rain, the public address system of the Frondizi group had broken down, the police stepped forward to offer their own public address system to help the politician carry out his planned public meeting.

Dr. Gainza Paz changed his pace at one point to intersperse the remark that the President and Vice President of his country both were prepared to enter into a military defense agreement with the United States if we desired it. The President noted this statement with interest and with a nod of his head but without specific comment.

The President, upon indication by Dr. Gainza Paz that he had finished his exposition, asked several questions, first, respecting the literacy rate in Argentina. Dr. Gainza Paz said that Argentina had the highest literacy rate in the Americas except for the United States and Canada. To the President's question about the relationship of agricultural and industrial development, he said that Argentina had always relied on its agriculture as a prime producer of national income but that under the Peron regime there had been great emphasis on industrial development at the expense of agriculture. He said that this had turned out to be very expensive because of the need to import many of the raw materials for various industries, such as iron ore. To the President's query as to Argentina's most urgent requirements, Dr. Gainza Paz referred first to the great need to rebuild the country's public transportation system and expressed appreciation for the loan of the Export-Import Bank of $100 million, of which about $56 million has already been obligated for the purchase of transportation equipment.[3]

The President thanked Dr. Gainza Paz for his detailed exposition of the problems facing Argentina today and assured him that the United States was tremendously interested in the effort of the Argentine people under President Aramburu to restore an orderly, democratic, constitutional form of government. He said that nothing had pleased him more than the removal from the American scene by the Argentine people of the Peron dictatorship.

The President said that he and the U.S. people felt strongly that the free enterprise system had been proven to be the best system on which to base a nation's economy. He felt that private capital should be allowed to do the job and that private capital would do the job if given an opportunity and if the economic climate was sound. He said that there were many ways in which the United States could help Argentina, such as through Export-Import Bank loans, and by supporting World Bank loans—but the best way was through utilization of the vast private capital resources of the United States which were available for foreign investment under proper conditions. Dr. Gainza Paz said that he agreed entirely with the President and that, in the luncheon he had had with his own President and Vice President on March 25, he had stressed the need for Argentina to establish conditions which would permit private capital to come in and help rebuild the nation's economy. He said that he had been very critical of some of the steps taken by the provisional government as well as its failure to do some things which he had thought it necessary to do. He said that his newspaper, *La Prensa,* had maintained a critical attitude toward the government's inactivity in certain important fields of action. Nevertheless, he said, the political situation in Argentina was so important to the United States at this strategic moment of history in view of the friendly situation which exists there at this time that we should not fail to move in with substantial support to take advantage of this opportunity.

The President inquired as to what other urgent needs Argentina was facing at this moment and was told that the country also needed replacements for its industrial machinery. The President challenged this statement in the face of Dr. Gainza Paz's earlier mention of the over-emphasis on industrial expansion and the need to import raw materials, but was told that these industries still needed to operate and that, with new machinery, they could operate more efficiently.

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[3] On February 15, the Export-Import Bank announced the signing that day of a $56.15 million loan agreement with Argentina to assist in the purchase in the United States of transportation equipment. The agreement was signed in Washington by Waugh and Vicchi. The loan was to be drawn under the $100 million line of credit earmarked for Argentina by the Bank in September 1956.

Mr. Rubottom asked Dr. Gainza Paz about the electric power industry which he said he had understood was in almost as critical condition as the transportation industry. Dr. Gainza Paz acknowledged that the electric power problem was a very serious one for his country and that his government had not moved with the alacrity that it should have to solve it, particularly insofar as taking advantage of the opportunity offered by the American and Foreign Power Company to help in the job of rebuilding the industry. Mr. Rubottom pointed out that the Argentine economic mission last summer had done a splendid job in presenting that country's economic needs and had been received here most sympathetically. He went on to say that those officials of the United States in a position to be most helpful to the Argentines have been greatly disappointed in the failure of the Argentine Government to take some urgent but constructive decisions which would enable private investment to come in to help rebuild the country. On the President's inquiry he was informed that American and Foreign Power had been in Argentina for many years, that many of its properties have been expropriated under the Peron regime, and that it had not yet been paid for the expropriated properties although it had offered to reinvest the indemnification, once it was paid, in Argentina and to bring in substantial new amounts of capital for the building of the new power plants. Dr. Gainza Paz stated that his government had indeed failed to do what it should have done in this field and that he was quite certain that they would settle the American and Foreign Power problem satisfactorily.

The President suggested to Dr. Gainza Paz that he take advantage of his visit to the United States to confer with the Secretary of State and other officials in the State Department and that he also discuss the problems which face his country with the officials at the Treasury Department, the Export-Import Bank, and possibly the World Bank. He assured Dr. Gainza Paz that the United States would carefully consider President Aramburu's request for financial assistance. Dr. Gainza Paz pointed out that Argentina would probably use up all of its dollar and gold reserves by the end of this year, hence the need for treating its requests for financial assistance urgently.[4]

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[4] In telegram 1085 to Buenos Aires, April 16, the Department summarized Eisenhower's conversation with Gainza Paz. (Department of State, Central Files, 835.00/4–1657)

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232. Memorandum of a Conversation, Department of State, Washington, April 10, 1957, 6 p.m.[1]

SUBJECT

Argentine Need for Economic Assistance

PARTICIPANTS

Argentine Ambassador, Dr. Adolfo A. Vicchi
ARA—Mr. Rubottom
OSA—Mr. Vaky

The Ambassador asked Mr. Rubottom what his impressions were of Gainza Paz's talk with President Eisenhower. Mr. Rubottom described the conversation very briefly, stating that Dr. Gainza Paz had explained the need for economic assistance, the problems facing the present Argentine Government, and had presented these matters very well. The President had told him that sympathetic consideration will be given to the situation and had suggested that he (Gainza Paz) talk to the Secretary or Acting Secretary, Mr. Black of the IBRD, and other officials in Washington.[2] Mr. Rubottom had stressed the fact that during the past year or so there had been virtually no progress on key problems, and that while the US was sympathetic to Argentina's situation it was handicapped in what it could do as long as Argentina did not do the things it had to do and which no one else could do for it. Gainza Paz had recognized this and had said he himself had criticized the Government on the same score.

The Ambassador then said that he wanted to comment generally on this subject but first with respect to electric power, which was a critical field, there were two distinct aspects. One, he said, was the question of new concessions. Policy in this regard was a delicate internal and even political matter, and the present regime, which was after all a de facto Government, felt that it could not take a basic decision on a point as controversial as this. The problem should be submitted to public debate so that the wishes of the people could be expressed through an elected Government. It was not probable, therefore, that this regime would be able to do much in that regard. The second problem dealt with ANSEC and compensation claims. This problem required no debate, the solution was a clear responsibility of the present Provisional Government, and that regime would solve it. He said the Las Varillas intervention was an error and the Argentine Government would have to do something about it.[3]

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[1] Source: Department of State, Central Files, 835.10/4–1057. Confidential. Drafted by Vaky.

[2] On April 19, Gainza Paz met with Dulles and Rubottom and offered an analysis of Argentina's financial difficulties similar to that which he presented to Eisenhower on April 10. (Memorandum of conversation by Rubottom, April 23; *ibid.*, 835.10/4–1957)

Turning to the general picture, the Ambassador said that Argentina needed assistance. It turns to the US. He said he was making a plea that, in considering what it can do, the US not apply too rigid a criteria or look at the problem solely as a banker. The US, he stressed, had a political interest in seeing the present Argentine developments continue. The present Government wanted to move closer to the US. There was an increasing trend in Argentina in that regard. But the Government could not do all it wanted to do at present, because the political and internal situation was still one of transition. He seconded Dr. Gainza Paz's description of the people as having been virtually brainwashed by the Perón regime.

The US had a great opportunity, he said, to help consolidate in Argentina these elements which were advocating democracy, free enterprise, and international cooperation. The present Government had to show progress in meeting urgent problems or people would turn to other alternatives and extremist solutions. If the US did not lend a helping hand to its friends who now needed it, it would be undercutting the very elements most friendly to it.

The Argentine Government could not be expected to do the politically impossible even if it was economically desirable. It would take time to consolidate, educate and move step by step. The Ambassador likened Argentina's situation to that of Mexico in 1917 when turmoil and extremist solutions were offered. Mexico, however, in some 20 years had moved gradually to stability and away from collective, statist economies. And Argentina, he pointed out, was beginning from a much less extreme position.

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[3] Earlier that month, the Argentine Government issued an intervention decree regarding an ANSEC-owned power plant in Las Varillas. Beaulac transmitted a memorandum of conversation concerning this matter to the Department in despatch 1250 from Buenos Aires, April 15. (*Ibid.*, 835.2614/4–1557)

It was not, the Ambassador went on, as if Argentina had done nothing. He noted that this Government had reversed Perón's isolationism, had ratified the OAS charter, adhered to the Caracas resolution and generally taken a more active part in international organizations. It had increased military cooperation with the US, and was considering a military pact. If it was up to Aramburu, he said, Argentina would have had one by now. In economics, it had done away with many of the artificialities of the previous regime. Many favorable economic steps had been taken. He recalled the great problem of Kaiser and how this had finally been resolved. As far as he knew Kaiser was very happy about its present situation. Argentine would, he said, continue to move in the right direction as rapidly as it felt it could. But it would be a mistake to try and push it too far too fast.

Mr. Rubottom said that all these factors were appreciated. He said, however, that he had to repeat again and again that the US could judge what aid it might give only in terms of how much progress Argentina was making in solving its problems. He noted that since the Coll Beneges mission there had been virtually no progress on important problems, and with respect to problems of American investors, such as ANSEC, even retrogressions, such as the Las Varillas case, seemed to occur. He said he felt that relations between the two governments and the peoples of the two countries were closer than they had been in many years, and this must be nurtured. He said, however, that while the US would move ahead and do what it could it must look to Argentina to move with it. It would be fallacious and tragic, for example, for Argentines to shift responsibility for failure to solve their problems to the US, because it was only in Argentina that these matters could be worked out. The Ambassador said that he agreed with that. Mr. Rubottom emphasized that the US could only help Argentina help itself, but had to look to Argentina to take its own steps.

Dr. Vicchi said that he could understand this and would certainly not expect the US to condone arbitrary actions nor to finance monopolies or things contrary to its general policy. He was in effect asking that the US not tie too many and too rigid strings to aid, not expect Argentina to move in exact tandem with the US because the Argentine Government had serious political problems and had to adjust the economically desirable to the politically possible. The US should recognize, however, that the present government was a friendly one trying to do the right things; that in time the trend would carry the day.

Turning to a specific item he mentioned that both General Electric and Westinghouse wanted to bid on the superusina and San Nicolas plant, but would need Eximbank financing to do so. His

Government, however, understood that the Eximbank would not loan another cent to Argentina until the ANSEC compensation problems were solved. This, his Government felt, was too severe, and he wondered if this in fact was the position of the US Government. Mr. Vaky pointed out that while he could not speak for the Eximbank, the policy had in the past been not to finance projects for which private capital was available. An offer by GE or Westinghouse to build an electric plant for the Government was not the same thing as private capital offering to invest in such facilities. The Ambassador said he appreciated this distinction. He said, however, that he must inform his Government what the attitude of the US would be toward assisting Argentina, whether austere, unbending, requiring strict quid pro quo action (coacción). He hoped, he said, it would be reasonably generous and aid adjusted generally and comprehendingly to what Argentina was doing and progress being made. To adopt an attitude, however, such as not doing anything else until ANSEC problems were solved was bound to be resented. He asked that we take time to consider these points as he would like to discuss the matter further.

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233. Memorandum From the Director of the Office of South American Affairs (Bernbaum) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, April 16, 1957.

SUBJECT

Economic Policy toward Argentina

The Gainza Paz visit and your last conversation with Vicchi indicate the imminence of a showdown on whether we will adhere strictly to our present economic policy toward Argentina, or modify it. The problems involved and the policy being followed to cope with them are summarized as follows:

(1) The Argentine economy is in great need of financial assistance. The Government has turned to the U.S. as the only practical source of the considerable long-term financing required.

(2) The negotiations conducted a year ago satisfied the Export-Import Bank that Argentine prospects of economic recovery and the

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[1] Source: Department of State, Central Files, 835.00/4–1657. Confidential.

feasibility of converting sterling balances into dollars for debt servicing purposes made it a reasonably good credit risk. A $100 million line of credit was granted for transportation.

(3) There are, however, three obstacles impeding the extension to Argentina of additional credits. These are:

> (a) The Argentine Government's failure thus far to honor its moral commitment, when negotiating the $100 million line of credit last year, to satisfy the admittedly legitimate claims of American & Foreign Power, the meatpackers, and the U.S. firms on the "interdicted list",[2] as well as to move to return the deposits of US banks.
>
> (b) With respect to loans in electric power, its insistence on Government ownership of electric power in the Greater Buenos Aires area despite the availability of private capital; and
>
> (c) with respect to loans for petroleum development, its refusal to allow private capital to participate with YPF in the petroleum industry, as well as the Eximbank's general policy not to make loans to anyone in this field.

(4) Problems faced by the Eximbank in coping with the foregoing include:

> (a) Should the Argentines be allowed to draw the $44 million remaining in the $100 million line of credit? The Bank has been dragging its feet on this issue as a means of pressuring the Argentine Government into complying with its promise to settle the outstanding claims of United States interests.
>
> (b) Should the Bank consider additional loans to the Government, in the absence of satisfactory progress on the claims of U.S. companies, for

(i) activities not involving competition with private enterprise. Transportation and industrial equipment were mentioned by Gainza Paz. Although there may still be some doubt in the minds of the Argentines regarding the balance of the line of credit, it has been made clear by the Bank, by the Department and by Ambassador Beaulac that it would be very difficult to make additional loans without progress on U.S. investors' problems.

(ii) electric power and petroleum. All U.S. agencies concerned have made the point that Eximbank loans to the Government for power and petroleum are out of the question in view of the availability of private enterprise. This would apply regardless of Argentine action on the claims of U.S. companies, but it is not clear that Argentine officials understand this distinction, as indicated by Vicchi's last conversation with you. The point has also been made that the Bank

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[2] In December 1955, the Argentine Government had announced that it was placing under interdiction several foreign-owned firms for presumed illicit dealings with the Perón regime. Two American-owned firms, Industrias Kaiser Argentina and Williams Química, were placed on the interdicted list. Documentation on this subject is *ibid.*, 811.05135.

> would be willing to finance electric power development by the A&FP and presumably by CADE. The question has not arisen in the case of petroleum because of the ability of most petroleum companies to finance themselves.

It is reasonable to assume that the Gainza Paz mission represents an appeal to President Eisenhower against the above-described policy of the Eximbank. Judging by what we have been told repeatedly by Vicchi, the appeal is based on the political advantages to the United States of a friendly Argentina, the desirability of demonstrating to the Argentine people through a generous policy toward the present pro-American Government that it pays to collaborate with the United States and the political dangers to both that Government and future Argentine-U.S. relations of attempting to resolve outstanding problems and power policy before the elections to take place on July 28 (Constituent Assembly) and February 23 (Presidential).

We are all agreed on the advantages of close working relations with Argentina and on the desirability of demonstrating that it pays to collaborate with the United States. It is also generally agreed that the present Government and what it stands for are about as favorable to U.S. interests as any that may come to power. We do not agree that solution of the claims of U.S. firms and policy on power should have involved unacceptable political risks during the earlier part of the present Government. Because of the role of petroleum in the downfall of Perón, it is probable that petroleum policy has involved real political risks.

We will have to admit, however, that recent governmental crises, the imminence of elections and the establishment by the Frondizi Radicals of economic policy as a main issue make it unrealistic to expect any decisions on power and petroleum before the returns are in. This could be after July 28 if the right kind of Constituent Assembly is elected—otherwise the Presidential elections of February 23, 1958 will have to be the key. The best we can practically expect before then is further progress on, perhaps solution of, the meatpackers problem, clarification of the status of U.S. firms on the interdicted list and possibly the nailing down of a satisfactory formula or commitment for eventual compensation to the A&FP. This last point, however, is a controversial one with political implications having been attached by the Argentines to the role of the Courts in settling the claims. It might well turn out that political turmoil may be such that even a formula to settle these claims may prove unattainable before some clarification of policy by either the Constituent Assembly or the election of a new government. Another factor which will in the long run exert influence on this problem will be the availability or non-availability of other financing for the superusina, a matter which will be known in a few weeks. If no suitable financing is available elsewhere, this could give the authorities second thoughts as to what will happen to whatever indemnity payments are made to A&FP.

Should the above be true, the only logical reason for strict adherence to our present policy of no concessions without conclusive action on the claims of U.S. firms would be: the belief that it promises results after the elections, regardless of the outcome; that it could not unduly harm the electoral prospects of those who support the present Government's objectives of close political and economic relations with the United States; and that it would not otherwise jeopardize the future of US-Argentine relations.

I think it valid to assume that the continued application of pressure on behalf of the U.S. interests concerned would improve prospects for settlement either before or after the elections. While by no means helpful to the electoral prospects of pro-U.S. elements, this could be done without special jeopardy to the future of U.S.-Argentine relations if applied to power, petroleum and additional other loans not involving competition with private enterprise. The Argentines would not be happy about this but would have no legitimate basis for grievance—they prefer to do things their way and we ours.

We could, however, expect an adverse reaction with dangerous potentialities for the future of our relations from continued refusal to complete the balance of the line of credit. Regardless of the factor of broken promises, this would be looked upon as going back on a commitment and as an unwarranted kind of pressure. It could in an electoral campaign be built up into a serious impediment to the kind of relations we would like to develop with Argentina. It could conceivably delay a final settlement of U.S. interests and kill whatever prospects there may be of a turn toward private enterprise in power and petroleum.

It must be remembered that in the minds of the Argentine public and the political leaders settlement of U.S. investors' problems and the Eximbank credit are not conditioned on each other. The U.S., in their minds, is committed. Therefore, any refusal to carry out the allocation or any unusual delay can only be misinterpreted and perhaps be used to the detriment of our position in the Argentine.

It should also be pointed out that dragging our feet on allocation of the remaining credit may not only be politically risky but might also not be effective in forcing a solution to the claims of U.S. firms. There is no reason to believe that the failure of the Argentine Government to settle the problems involved is due to bad faith on the part of those who made the earlier promises. Rather it seems due to a felt inability to get those solutions across in the face of political difficulties and opposition. It might be true that the present leadership is too timid, too ready to give up, but the fact remains that the political difficulties seem as real to them as they may seem exaggerated to us. Under these circumstances it could seem to them, justifiedly or not, that we were in effect asking them to risk their political lives for the remaining loan. As the need to scrupulously avoid appearing to be subservient to U.S. interests is still a practical political necessity in Argentina and as the Government has shown no particular political courage in the past, it might well decide to refuse to accept these conditions and publicly explain failure to obtain the remainder of the credit on the basis that the U.S. required too much. This is a real possibility and could seriously hurt our position.[3]

Even if it is assumed that the pressure is effective and the Provisional Government bows to it, it would unavoidably become known that we exerted it. There is nothing that the nationalists and anti-U.S. elements would like better than such an issue during the coming elections. Ingrained suspicion of the U.S. and imbedded nationalism would respond, and we will have ended up by strengthening the very elements we want to weaken, while hurting our friends.[4]

The argument for delaying allocation as a bargaining weapon would be stronger if it were the only lever we had. However, in the circumstances we would not sacrifice much leverage in going ahead with the previously established credit, since the continuing need for help from us will continue to give us a bargaining position of being able to insist upon action first if that appears appropriate. The Argentines will in fact be much less able to trade in promises as distinct from actions.

In view of these risks and the likelihood that the prospect of additional loans would represent a potent lever to get U.S. claims settled, it would make good sense for us to go ahead with the $44 million balance in the line of credit.

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[3] A handwritten notation on the source text, apparently by Rubottom, reads: "Where else does Arg. turn?"

[4] A second handwritten notation on the source text, apparently by Rubottom, reads: "This will happen no matter what happens."

234. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, April 17, 1957—7 p.m.

1048. Reference Embtel 1038 April 17;[2] Deptel 1085 April 16, 1957.[3] Reference Vicchi Gainza Paz conversation Embassy tends to think as follows: As Vicchi said relations with Argentina should receive greater consideration than problems individual United States companies and in this connection: A. Provisional government has made progress in stating publicly and in taking action demonstrating desire cooperate United States and other countries, especially in political field; B. It also has indicated desire settle economic problems importance United States companies. It has finally submitted plan (contents unknown) to economic council for settling past accounts packing companies (On the other hand, problem AFP has actually worsened since government promised to solve it.); C. Although Argentina has pressing dollar problem and short-term economic outlook not good, this in part result fortuitous circumstances principally short corn crop and high cost imported fuels result Suez crisis; D. Because of basic resources long-range outlook for Argentina good, if country adopts adequate economic policies.

Foregoing does not necessarily suggest United States should make additional loans Argentina now. In that connection, following considerations pertinent:

A. To grant additional loans now in absence greater progress on pending problems United States companies would probably encourage further delay solutions those problems; B. It would make it easier for government postpone difficult decisions in fields petroleum, electric powers; C. Furthermore, government becoming lame duck. No assurance elected government will have same desire cooperate with other governments as this one.

Under circumstances it appears best course us to pursue would be; A. Continue press solutions AFP and packers problems; B. Continue express desire close cooperation; C. Indicate if approached regarding further loans that solution AFP problem and packers problem as promised by Argentina in connection earlier loan negotiations needed in order place us in position to justify further Export Import Bank loans.

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[1] Source: Department of State, Central Files, 835.00/4–1757. Secret.

[2] In telegram 1038 the Embassy offered its observations on the views expressed by Vicchi in Washington. The telegram reads in part: "Loans would not help Argentina solve basic problems unless adequate economic policies adopted and help of private capital obtained. Solution AFP and meat packers problems would encourage foreign capital to cooperate and would help justify further loans by US.

"No Argentine official has ever alleged to me political difficulty in way of solving AFP and meat packers problems." (*Ibid.*)

[3] See footnote 4, Document 231.

Especially because we failed to make packing and AFP problems conditions for steel plant loan under Peron, we may find it necessary agree allocate remainder $100 million by provisional government.

Beaulac

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235. Memorandum of a Conversation, Department of State, Washington, April 18, 1957, 5 p.m.[1]

SUBJECT

Problems of American Investors in Argentina

PARTICIPANTS

Argentine Ambassador, Dr. Adolfo A. Vicchi
OSA—Mr. Bernbaum
OSA—Mr. Vaky

Ambassador Vicchi referred to the problems of the meatpackers and A&FP. He noted that progress was being made with the meatpackers' problem, but pointed out that settlement of past accounts was not as simple as it looked. Examination of accounts for the past ten years was no simple job. The Government would have to be careful in reaching an agreement for payments that are not based on a close audit of all records—itself time-consuming—because it could be accused of "deals", corruption, and the like.

He noted also political difficulties involved in settling A&FP claims, particularly in appearing to by-pass the courts. He said that the Government now proposed that judicial litigation proceed, and that in the meantime a mixed commission be established to set valuations which would be adjusted later, if need be, once the judicial decision is known. The company, however, had rejected this plan. Mr. Bernbaum pointed out that the company was concerned because this plan could mean that the matter might not be decided for years if the judicial decision is to be the final word, and noted the large number of individual suits that would have to be initiated, a fact of which the Ambassador seemed unaware. The company could not operate in this climate of uncertainty for long. He pointed out also that the question of what basis to use for valuation of assets was a real problem, since the courts traditionally used historical cost. The Ambassador acknowledged this would be a problem.

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[1] Source: Department of State, Central Files, 811.05135/4–1857. Confidential. Drafted by Vaky.

The Ambassador then said that when he returns to Argentina he hopes to get into this matter and perhaps foster a solution. He wondered, for example, if some type of arbitration, clearly above reproach, could not be set up. Mr. Bernbaum said he thought the company would agree to arbitration, and then described how the matter of reaching a settlement had almost been resolved and then spiked apparently by Minister Alconada. The Ambassador merely nodded, but seemed unaware that agreement on a method had at one time been so close.

Mr. Bernbaum pointed out that these problems had become entwined with the matter of loans and credits, and recalled the negotiations a year ago pointing out that Mr. Brand had stuck his neck out in assuring officials of the US Government that outstanding problems would be resolved. It was, therefore, extremely embarrassing to find little or no progress in these matters. The Ambassador said he understood, but again made the argument that while the Government and many other people wanted to do the right things, many others adopted a nationalistic attitude and one opposing closer relations to the US. It was, therefore, important for the US to strengthen the elements friendly to it, to permit them to gain sufficient power to do the right things.[2]

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[2] On April 23, Vicchi spoke with Rubottom and Vaky about the meatpackers' and A&FP problems. A memorandum of that conversation, drafted by Vaky, reads in part as follows:

"The Ambassador stated that problems such as the A&FP indemnity claims and the meatpackers' accounts would be solved, and noted progress in the latter case. He asked that we keep in mind the nature and friendliness of the present regime, its desire and attempt to move along the right path and its need for a helping hand financially, and that we reflect on the value of not being too inflexible in the criteria we set up for aid. He asked that at least we not take an irrevocable policy decision but be prepared to continue discussions and consideration on such matters, and we could see what might develop. Mr. Rubottom stated that he could say confidentially that Mr. Brand would be going to Argentina about May 1 for a few days." (*Ibid.*, 835.10/4–1057)

Brand's planned trip was subsequently postponed.

236. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, April 24, 1957—4 p.m.

1062. Reference: Deptel 1107, April 18.[2] Delivered President Eisenhower's letter to President Aramburu[3] yesterday and at same time presented certain considerations in connection with pending problems.

I noted Gainza Paz and Vicchi had talked in general terms about cooperation by US and American officials had talked to them in specific terms of problems involving American interests in Argentina.

I said our government sincerely felt it giving Argentina generous cooperation and naturally expected Argentina would make progress in carrying out offer made by Col. Benegas mission to solve pending problems which it had an obligation to settle without reference to possible loan.

President said meat packers problem well under way to solution.

With reference to ANSEC problem, he noted government had suggested to AFP that commission to fix indemnity for expropriated companies be appointed but that cases not be withdrawn from courts, and AFP had rejected this proposal. I said I assumed government still intended to solve this problem and President said that that appeared difficult to him. Only 9 months before elections and solution along lines company wanted would present real political problem to Argentina.

I asked President whether he meant to convey to me government's definite decision not to attempt solution ANSEC problem. If this were the case it represented a new development and I would inform my government in that sense. I noted in this connection Argentina Government representatives continue inform US Government provisional government will solve ANSEC problem and I read from Department's memo of conversation between Vicchi and Rubottom on April 10 Vicchi's statement solution ANSEC problem clear responsibility of provisional and provisional government will solve it.

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[1] Source: Department of State, Central Files, 835.00/4–2457. Secret. Repeated to Rio de Janeiro.

[2] In telegram 1107 the Department reported that Gainza Paz was due to see Dulles, Humphrey, Waugh, and Black within the next few days, "after which scope and purpose his visit may be better defined." Subject to those talks, the Department would review the question of economic aid for Argentina with the Export-Import Bank. (*Ibid.*, 835.00/4–1857)

Gainza Paz met with Waugh and Brand on April 23. According to a memorandum of that conversation, drafted by Bernbaum, he "repeated the exposition he had already made to President Eisenhower, the Secretary of State and to the Under Secretary of the Treasury." (*Ibid.*, 835.10/4–2357) No memorandum of Gainza Paz's conversation with Burgess or any record of conversations with Humphrey or Black were found in Department of State files.

[3] Transmitted to the Embassy in telegram 1096 to Buenos Aires, April 17. The letter reads in part: "For my part, I am very pleased to have had the opportunity of discussing these matters with Dr. Gainza Paz, and I wholeheartedly agree with you that such a personal exchange of views is decidedly helpful. You may be sure that we here in Washington will continue to give the closest attention to problems of mutual interest to our two governments." (*Ibid.*, 611.35/4–1757)

President said he would call meeting of government and give me definite answer later on. He did not want government's position to be unclear.

Although President did not say so specifically, I deduce that his present view is that government has made an offer to AFP which government considers politically viable and company has turned it down. Onus for failure thus rests on company rather than government.[4]

Beaulac

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[4] In despatch 1295 from Buenos Aires, April 26, Beaulac enclosed memoranda of conversations which he recently had with the Argentine President, Minister of Commerce and Industry, and Minister of Foreign Affairs regarding the ANSEC problem. "The President indicated that the kind of settlement the company wanted would be very difficult for the Provisional Government to bring about," he noted. "He declined to say, however, that the Provisional Government had given up the idea of settling the problem and indicated that he would call a meeting of the Government in order to define the Government's position." (*Ibid.*, 835.2614/4–2657)

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237. Telegram From the Acting Secretary of State to the Embassy in Argentina[1]

Washington, May 2, 1957—8:45 p.m.

1173. Department and Eximbank agree with Embassy's estimate Embtel 1048[2] that time has come for Eximbank work out with Argentines implementation $44 million balance line of credit. Since IBRD considering complementing Eximbank credits in transportation, Argentines should be receptive proposed allocation $15 to $20 million of balance to private sector, excluding power, with remainder to transportation. Our readiness proceed usable as effective demonstration our desire help despite difficulties created by lack progress on Argentine commitments made during negotiation.

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[1] Source: Department of State, Central Files, 835.00/4–1757. Confidential. Drafted by Rubottom, Bernbaum, and Vaky and approved by Rubottom.

[2] Document 234.

Department and Eximbank also agree not desirable, despite definition our own thinking, to spell out settlement US claims as condition for loans beyond $100 million credit. We will continue here as you are in Buenos Aires emphasizing difficulties created by lack progress on Argentine commitments and desirability of progress as best means attracting needed foreign capital.

We understand unrealistic expect immediate conclusive action on problems all companies. Without relaxing in efforts their solution believe progress on some cases with reasonable expectation solutions in sight would be considered satisfactory evidence Argentina complying with commitments. ANSEC emphasized because of retrogressions rather than greater importance other firms. Meatpackers' problem appears offer best prospect results.

Any case, however, should be made clear that problems US investors aside, Bank will not make loans to government in electric power field since private capital apparently available.

Embassy comments foregoing desired. Eximbank also interested in Embassy's views on timing and site discussions on implementation $44 million balance. Bank perceives difficulty discussions private sector loans Washington.[3]

Herter

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[3] In telegram 1105 from Buenos Aires, May 6, Ambassador Beaulac proposed that he promptly leave an aide-mémoire with the Argentine Foreign Minister, Alfonso de Laferrere, regarding U.S. interest in a solution to the ANSEC and meatpackers' problems. (Department of State, Central Files, 611.35/5–657) In telegram 1106, May 6, Beaulac informed the Department as follows: "It is our present idea that after aide-mémoire transcribed in my telegram 1105, May 6, is delivered and in the absence of new developments which might make trip undesirable, Brand should come Buenos Aires for stated purpose of discussing allocation remainder $100 million credit." (*Ibid.*)

The Department approved his proposal, with certain minor modifications, in telegram 1201 to Buenos Aires, May 9. (*Ibid.*) On May 22, Beaulac delivered the aide-mémoire to de Laferrere; a copy was transmitted to the Department in despatch 1431 from Buenos Aires, May 22. (*Ibid.*, 811.05135/5–2257)

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238. Editorial Note

On June 3 the United States and Argentina signed a General Agreement for a Program of Technical Cooperation. The agreement was signed for the United States by Willard Beaulac and for Argentina by Alfonso de Laferrere and entered into force that same day.

For text, see 8 UST 811. Documentation on this subject is in Department of State, Central File 835.00–TA.

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239. Memorandum From the Director of the Office of South American Affairs (Bernbaum) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, August 8, 1957.

SUBJECT

Possible Financial Aid to Argentina

During the time the US Delegation is in Buenos Aires for the Economic Conference[2] it seems inevitable that it will be approached by the Argentines on the subject of further US loans. In point of fact, Coll Benegas has lately been pressing hard for an invitation to come to Washington to talk about new loans (Embtel 167).[3] He has been basing his argument on the alleged fact that the meatpackers question has been settled in "principle", and that the Argentines have submitted a "proposal" in the ANSEC case. Ambassador Beaulac has quite correctly pointed out that the meatpackers problem cannot be considered settled until the pertinent decree is published,[4] and that there has been no serious proposal in the ANSEC case since the Government failed to carry out its out-of-court settlement idea.

Be that as it may, our position has always been that we could not consider further loans until some progress had been made on these problems, although we have been careful not to define the amount of progress necessary. Now, however, it appears that either some progress will have been made or the Argentines will take the position that it has, and I suggest we should begin to consider what our position should be in several situations. These thoughts may be of use to you in discussions with either Mr. Waugh or the Argentines.

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[1] Source: Department of State, Central Files, 835.311/7–2457. Confidential. Drafted by Watrous.

[2] Reference is to the Economic Conference of the Organization of American States, which met at Buenos Aires, August 15–September 4. For documentation, see vol. VI, Documents 135 ff.

[3] Dated July 24. (Department of State, Central Files, 835.311/7–2457)

[4] In telegram 304 from Buenos Aires, August 16, the Embassy reported that an Argentine governmental decree settling the problem of past accounts of meatpacking firms operating in Argentina was officially published on August 14. (*Ibid.*, 835.311/8–1657)

No real progress in either meatpackers or ANSEC. In this situation, I can see no alternative to holding firm to our stand of no loans. We would be under pressure not to adopt a "banker's mentality", to consider political factors, etc., but I think it would be a mistake to yield to these arguments.

Progress, or settlement, of meatpackers' case; no progress in ANSEC. This situation would be more difficult, for the Argentines could maintain that they had gone as far as a Provisional Government could go in coming to grips with our problems. Nor have we ever told them that a complete settlement of *all* the problems was a sine qua non of additional assistance.

Logic would indicate, it seems to me, that if the Argentines have come part way in meeting our conditions we might then well go part way in meeting their requests. This would imply limited financial aid in carefully selected fields, with again the clear understanding that large-scale assistance would not be forthcoming in the absence of an ANSEC settlement. Further attentions to transportation and industrial equipment suggest themselves. The field in which financing is vitally needed—electric power—could not, of course, be touched in this situation.

Settlement of both meatpackers and ANSEC problems. In a way this happy situation would present us the most difficulties, for the Argentines would unquestionably expect aid on a scale beyond anything we could contemplate. We would, however, be morally committed, I think, to providing as much assistance as we could. Here two problems arise. The first is the amount of foreign debt Argentina can assume in the next few years. (The IBRD is particularly apprehensive on this score, and feels that Argentina may not be able to service much more in the way of foreign debt. A study on this subject is in process in the IBRD.)

Secondly, we come face-to-face with the question of electric power, which is, excluding petroleum, admittedly Argentina's prime need. In this field, we have taken the position that until the situation of A&FP was regularized, and until Argentina's power policy was clarified, we could offer no help; even in this case we would presumably maintain the line that we could not intervene should private capital be available. But the recent Argentine action in regard to CADE and ITALO very definitely raises some questions as to Argentina's future power policy. Even should A&FP's problems be settled and ANSEC allowed reasonable operating conditions, it would be difficult for us to consider a power loan unless we knew the shape of things to come in the rest of the industry. At present it appears that the CADE and ITALO cases will be in the courts for some years to come; it is also possible that the forthcoming Constitutional Convention will write nationalization of all public utilities into the reformed Constitution. Under circumstances such as these it would be extremely difficult for the Eximbank to supply financing for the power industry. (The analogy of Petrobras[5] is perhaps pertinent.) This question, however, should be gone into thoroughly, as the question would arise: Is private capital available?

Intermediate situations, such as Argentina's buying out CADE and turning it over to Argentine capital or to a mixed company, are also possible. Under these circumstances it is conceivable that A&FP might be interested in further investment in Argentina; in any case, we should seek clarification of A&FP's position before determining ours.

Cutting across these questions is the problem of what fields could be benefited by US loans. Here we must face the fact that if petroleum and power are excluded, the field is narrowed sharply. Transportation can absorb a further amount, after which the field appears limited to equipment for industry and agriculture.

In this connection, two points should be emphasized to the Argentines in any discussion of loans. First, it is obvious that their problems are of such magnitude that they cannot under any circumstances be solved solely by Government loans. Stimulating the inflow of private capital should be their first concern; an attitude of confidence would certainly be created by settlement of our outstanding problems, while actions like that in the CADE case can hardly do other than harm in the long run.

Secondly, the Argentines seem reluctant to channel loan funds into the private sector, while, I believe, it is our policy to encourage this. Apparently, Argentine reluctance has been based largely on ignorance of techniques in this regard; some salesmanship in this field might well be productive.

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[5] Reference is to Brazil's government-owned oil company.

240. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Snow) to the Assistant Secretary of State for Economic Affairs (Kalijarvi)[1]

Washington, August 13, 1957.

SUBJECT

Cotton PL 480 Agreement with Argentina

Discussion

In June, Argentina requested the purchase of 45,000 tons of cotton fiber under PL 480. In late July, they revised this request, indicating that only 25,000 tons were desired this year. This request is based upon the fact that Argentina has had a failure in the cotton crop and imports will be required for the comparatively well-developed and large textile industry. An additional factor is that Argentina's production is increasingly of low-grade cotton which is not usable by its textile mills. Increasingly, therefore, Argentina finds itself in need of importing high-grade fiber. Because of its serious balance of payments position Argentina faces a difficult exchange problem in the importation of cotton.

Embassy Buenos Aires has recommended, on the basis of its statistical information, that 10,000 tons should be sold to Argentina under Title I. It supports this on political grounds, and I attach a copy of Embassy cable 275[2] to that effect. On August 9, we learned informally from Agriculture that that Department was not going to recommend any cotton for Argentina under Title I. This position is based upon the relatively small amount of cotton ($135 million) to be disposed of world-wide under the Title I authorization, and Agriculture's desire to use all of this in countries where there are prospects of building up a future market for US cotton. Agriculture does not feel that such prospects exist in Argentina.

I believe that there are strong political reasons for an accommodation with Argentina:

1. Argentina is, of course, a strong critic of our agricultural disposal program because of her competitive export economy. The more Argentina benefits from this program, the more restrained she will feel in criticizing it. This has happened in the case of two previous PL 480 sales to Argentina which had a modifying effect on

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[1] Source: Department of State, Central Files, 411.3541/8–1357. Confidential. Drafted by Vaky.

[2] In telegram 275, the Embassy stated that it was "very desirable" on political grounds to provide Argentina with 10,000 metric tons of cotton, "as it would lessen basis Argentine criticism PL 480 program and serve offset government disappointment re tung oil restrictions." (*Ibid.,* 411.3541/8–957)

her position. With Agriculture prepared to push feed grains and fats and oils in the coming year, both highly competitive with Argentine products, incipient friction can be lessened by a Title I transaction with Argentina.

2. The US has a particularly strong political interest in Argentina. With the current domestic political situation in that country presenting a rare historical opportunity to improve relations with that country, we must be alert to every chance to improve understanding and cooperation. Particularly when we are trying to get Argentina to do certain things, notably on American & Foreign Power expropriation claims and the meatpackers' problem, we should not risk a misunderstanding of our attitude or willingness to be friends with Argentina.

3. There is increasingly little that we can do elsewhere for Argentina. Economic competition presents obstacles to closer relations. Traditionally, Argentina has felt sensitive over our refusal to permit imports of Argentine fresh meat. She felt apprehensive over our PL 480 program's possible effect of cutting into her markets at a time when she must necessarily increase her export earnings. Very desirous of increasing trade with the US, Argentina is frequently faced with trade barriers cutting into her dollar earnings. Tung oil restrictions are a case in point. Although she badly wants financial aid from us, we are limited in extending it both by Argentina's limited credit and capacity to service loans and by her domestic policies which exclude private foreign capital from the petroleum and electric power fields which represent the major portion of Argentina's capital needs. We have been unable to satisfy certain requests for military equipment due to non-availability and hemispheric precedents. We shall probably, for the same reasons, be unable to satisfy a request for the purchase of merchant ships. On numerous points, we have been forced into the posture of refusing Argentine approaches for some type of action.

If, in addition to not doing things for Argentina because we lack the capabilities (such as extending substantial additional loans), we fail to do something which it is within our power to do, our sincerity will become suspect to the Argentines. The consequences will adversely affect our general relations as well as make far more difficult the securing of specific things we want from Argentina.

It is recognized that from some points of view, such as those held by Agriculture, there are strong reasons for refusing a Title I transaction with Argentina. From other points of view, however, there are strong reasons supporting such an agreement. It is essentially a question of weighing one against the other to determine what is in the best overall interest of the US. ARA believes that the net advantages to be gained from such an agreement, plus the adverse effects which would result if we deny the request completely, far outweigh other considerations, and that it is in the best overall interest of the US to conclude such a transaction.

Recommendation

I recommend that the Department support a Title I transaction for the sale of cotton to Argentina. The amount of 10,000 tons, which was recommended by our Embassy, would appear to be the minimum quantity.[3]

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[3] Negotiations concerning a possible P.L. 480 agreement with Argentina continued through the end of the year without resolution. Documentation is *ibid.*, 411.3541.

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241. Memorandum From the Director of the Office of South American Affairs (Bernbaum) to the Deputy Assistant Secretary of State for Inter-American Affairs (Snow)[1]

Washington, August 22, 1957.

SUBJECT

Bilateral Military Pact with Argentina

Background

On May 13, the Argentine Foreign Minister informed Ambassador Beaulac that Argentina would like to begin talks on a military agreement, but would like the suggestion that negotiations be undertaken to come from us.[2] On May 29, in response to instructions, Ambassador Beaulac told the Minister that the US would be receptive if Argentina wished to negotiate such a pact, but felt that we were not in a position to take the initiative. The fact of general budgetary limitations restricting the amount of aid available and the inability to include Argentina in the FY-58 budget were also mentioned.[3] In a subsequent conversation on June 3, the Minister suggested that the matter be left in suspense for the time being and that it might be taken up later.[4] The Ambassador indicated he would discuss the matter further in Washington on his then-impending consultation. As things stand, therefore, we are under no particular obligation to reopen the matter ourselves, although our failure to follow up will clearly be taken as a turn down of the Argentine feeler.

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[1] Source: Department of State, Central Files, 735.5-MSP/8-2257. Secret. Drafted by Vaky.

[2] Beaulac reported this development to the Department in telegram 1134 from Buenos Aires, May 14. (*Ibid.*, 735.5-MSP/5-1457)

[3] Beaulac reported this conversation to the Department in telegram 1214 from Buenos Aires, May 31. (*Ibid.*, 735.5-MSP/5-3157)

[4] Beaulac reported this conversation to the Department in telegram 1231 from Buenos Aires and despatch 1490 from Buenos Aires, both June 4. (Both *ibid.*,

(Continued)

From his conversations, the Ambassador deduced 1) that the Argentine Government sincerely wants a defense agreement with the US; 2) that it had overestimated how badly we wanted an agreement; and 3) that the Government's enthusiasm for immediate negotiation was somewhat dampened by the realization that Argentina could not be included in the FY-58 program.

While in Washington, the Ambassador discussed the matter with State and Defense officials. It was decided that the JCS would be asked for a military evaluation of the desirability of a pact, and to consider whether negotiations for force objectives could be undertaken through the Argentine representatives on the IADB rather than a US survey team being sent to Argentina. On the basis of these decisions, a determination of the political aspects would be made, and the Embassy instructed accordingly.

The JCS have determined that a pact with Argentina is desirable. In a letter to Mr. Murphy dated August 6, Defense requests that State initiate action to secure such an agreement with Argentina. Defense states, however, that no discussion as to missions or force objectives be undertaken until an on-the-ground survey by a US military team has been accomplished, "it being considered impractical by the Joint Chiefs of Staff to establish a judicious determination of the extent of military assistance to Argentina without a survey of the status of Argentine military forces and their equipment." A copy of this letter is attached.[5]

Discussion

The first thing to be decided, of course, is whether we want a military agreement with Argentina. This has been answered from the technical or military standpoint—we do. I believe it is fair to say that, politically, closer military cooperation through a pact is a desirable and useful means of bringing Argentina further out of isolation and closer to us, and hence a desirable goal in furtherance of basic policy objectives. I believe it also fair to accept the premises that 1) the present Argentine Government wants closer relations

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(Continued)
735.5–MSP/6–457) The Department had instructed him to pursue this approach in telegram 1257 to Buenos Aires, May 23. (*Ibid.*, 735.5–MSP/5–2357)

[5] Not printed. (*Ibid.*, 735.5–MSP/8–657)

with us in all fields; 2) it wants more military assistance from us, preferably grant aid.

Given these premises and the Defense request that we negotiate such a pact, we must now answer the questions: 1) Do we want to negotiate with the Provisional Government, given the fact of its limited tenure and the present political situation? 2) Are we prepared to assume the risk of political attack in Argentina against us and against the Provisional Government, and to take the risk of possible failure of the negotiations, if the Argentine Government also is prepared to take these risks?

The answer to the above two questions must take into account a) the present political situation and existence of nationalistic sentiment, and the possibility that feeling may run high enough to undercut the Government and even endanger its stability; b) the possibility that negotiations may fail with consequent adverse effects on the US position in Argentina; and c) the possibility that an elected Government might not respect the agreement and seek to denounce it.

It is possible that Argentina has changed its mind, and would decline to proceed further. In that event, the matter could be closed. However, on the supposition that it is still interested, and starting from the general proposition that a pact is desirable from both the military and political viewpoints, I believe that only some overriding risk to the general US interest deriving from the particular political situation in Argentina should prevent us from seeking to negotiate such a pact. This belief is strengthened by the fact that it would be unwise to decline to negotiate with this government so long as we have similar agreements with its neighbors and most of the other American Republics. This is true even though the same reasons that prompted us to negotiate with the other countries do not exist today.

In assessing the magnitude of risks involved, we must concede that there would be nationalistic opposition to such a pact and to negotiations. Possibly, such opposition would reach sufficient magnitude or become vocal enough to cause the Argentine Government to back off of negotiations after they started, or even to force a change in the Government. Another risk is that the Government may be forcefully changed, due to other causes, and that some persons may mistakenly establish a relationship of cause and effect between the negotiations and the change in Government.

As of June the Embassy believed that the Government had carefully estimated the probable importance of nationalistic opposition and had discounted it. The situation is somewhat changed now, following the Constituent Assembly elections, and the Government may feel the risk now worthwhile. I have asked for Ambassador

Beaulac's assessment on this point. As a general proposition, however, the Provisional Government seems more stable now than last May.

If the Argentine Government weighs the risks and decides they are too great to proceed, we, of course, have no problem. If they decide the risks are not an obstacle and are willing to take them, and the Embassy concurs in this assessment, I believe that we should go along. To a considerable extent such risks can be minimized by seeking to avoid protracted negotiations or publicity while they are in progress.

As to the possibilities that the negotiations might fail, one cause of failure might be the nationalistic opposition already discussed above. As indicated, the answer here would be the assessment of how realistic such a possibility might be by both the Argentine Government and our Embassy. However, we should also consider that negotiations might fail because the Argentines find they will not get out of it what they thought they would. This risk can be minimized by making as clear as possible in advance what the Argentines may expect and by obtaining clear agreement as to the conditions of negotiation. If the Argentines still wish to proceed, the risks would seem minimal that negotiations would fail for that reason. Since the point of most interest to the Argentines will be how much aid they get and the missions to be agreed on, and since this is just the information we cannot give with any precision ahead of time, this is a practical problem. It is further discussed below.

With regard to the possibility of repudiation by a successor government, this, of course, is always a possibility. There is, however, a greater possibility that a successor government, even one headed by Frondizi, would respect it and try to utilize it. This seems true because if negotiated, it can be assumed that the military would have generally supported it and would stand to gain by it. An elected government is hence not likely to risk antagonizing military support. The tendency of the Argentine military toward closer relations with us can be expected to continue, and this tendency would have to be taken seriously by any government, whether or not the political party or parties in power themselves strongly favor that tendency. It seems to me that the chances are in favor of acceptance by a successor.

Another aspect, however, is that negotiations may not be completed before a successor government comes in, and that either we would have to start all over or find that the successor regime will not want to carry on for political reasons. The answer here would be to insure a quick negotiation by reaching a considerable degree of pre-understanding. In any case, the risk of not being able to complete the negotiation would not seem serious enough to warrant great concern, except in the circumstance that the US was made to appear as the initiator or the "pusher" for such an agreement vis-à-vis the Provisional Government. I do not for that reason believe that we should agree to appear to be the initiator as suggested by the Foreign Minister, since we only increase the risks to our position in Argentina thereby.

It is clear that the risks derived from the points raised above can be considerably minimized by telling the Argentines plainly in advance what we would expect from them and what they would expect from us. It had been hoped that we could avoid the procedure of sending a joint survey team down before being able to determine or negotiate on force objectives and the extent of grant aid. Defense, however, insists on the survey. If negotiations on the general agreement and on the classified addendum proceed together, as I understand is generally done, the political risks are increased. This is so, because it would require the presence in advance of signature of a US military team. This would make virtually impossible the avoidance of publicity and speculation, would mean a longer negotiation, and would give the opposition considerably more time to whip up sentiment against it. A solution, acceptable to Defense, would be to negotiate and sign first the unclassified and relatively innocuous general agreement and give it publicity. We could then proceed to negotiate the classified annex on missions as the circumstances indicate. The opportunity to gauge the reaction to the general agreement will indicate when and how to proceed to the other, and any publicity surrounding the military survey team will be irrelevant since the survey would be expected.

The disadvantage, of course, is that the Argentines would be asked to agree to the general agreement without knowing what specific "reward" they will get out of it, and we naturally would have to get Argentine understanding of this and acceptance of the procedure before we proceeded with any negotiations at all. We could justify the procedure to the Argentines by pointing out the adverse effect upon our relations of any failure to conclude negotiations satisfactorily once they were initiated due to adverse publicity or nationalistic opposition. We might also be able to give some general indication of the magnitude of aid to enable the Argentines better to decide whether they wish to embark on such a course.

Recommendation

I recommend that Ambassador Beaulac be instructed to reopen the matter with the Foreign Minister along the following lines:

1. The US Government appreciates Argentina's suggestion with reference to a possible Bilateral Military Agreement and would welcome such an agreement with Argentina.

2. Our Government has shared the apprehensions expressed in the past by Argentine officials regarding possible political repercussions and risks to the negotiations of such an agreement, particularly during the forthcoming political campaign in Argentina, and assumes that the Argentine Government has given full consideration to this situation.

3. If the Argentine Government continues to believe that such possible political repercussions should not constitute an obstacle to negotiation of a military agreement, the US is prepared to negotiate with the following understanding:

> a. It is too late to assure inclusion of Argentina in any FY–58 program.
>
> b. In any event, the amount of military aid which might become available to Argentina would be limited by budgetary considerations. (If possible, give here some idea. This would seem essential.)
>
> c. Agreement concerning the military mission which Argentina would undertake (force objectives) would be arrived at following a survey and on-the-ground discussions with Argentine officers by a joint US military team, which Defense is prepared to send to Argentina.
>
> d. To avoid undesirable publicity or protracted negotiation, the US believes it would be desirable to negotiate and sign first the standard general agreement establishing the general principle of military collaboration, following which the agreement as to missions can be worked out. (This can be justified as above.)

4. Joint announcement of negotiations can be made without reference to which country suggested negotiation, or reference might be made to the general US interest in such pacts expressed some years ago with reference to the entire question of hemisphere defense.

We are now drafting a request for Circular 175[6] authorization to negotiate and to clear an instruction to the Embassy along the above lines.[7]

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[6] Circular 175, December 13, 1955, concerned the proper exercise of the treaty and executive agreement-making power of the United States, as well as the approval of texts of treaties and the making of arrangements for signature. It is in a file retained by the Records Management and Regulations Division of the Bureau of Personnel, Department of State.

[7] In a handwritten comment on the source text, dated October 21, Snow noted the following: "We are now awaiting Presidential determination re Argentina's eligibility under our MSA law before drawing up instructions for Amb. Beaulac."

In A–161 to Buenos Aires, November 8, the Department attached a draft text of a military assistance agreement between Argentina and the United States, "which it is proposed to negotiate, should the circumstances indicate." For the present, the Department explained, the Embassy was requested to do the following:

"1. To submit a current assessment of the political risks involved, and an estimate of whether, on balance, it would be in the US interest to reopen this matter at this time.

"2. To submit its judgment as to whether the Provisional Government continues to desire such an agreement. The Ambassador may, in his discretion, informally sound

242. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, October 8, 1957—1 p.m.

603. Foreign Minister called me yesterday to ask support for Coll Benegas' request for new $150 million credit as contained in Ministry of Finance aide-mémoire dated August 22 which was handed to Waugh during Buenos Aires Economic Conference.[2]

Minister said Coll reported Export-Import Bank favorable to loan but State Department withholding approval because interested only in loans to crisis areas and not in loans to Latin America. Nevertheless part of loan assured including transportation equipment and industrial machinery.

He said Export-Import Bank wants to send another mission to Argentina to discuss remainder of loan request but process of sending missions could go on indefinitely without result and Argentine Government badly needs to give people some "sensation of relief" in very difficult economic and political situation now existing.

Minister referred to Peronista activity within Argentina and in neighboring countries, to Argentina's importance to the hemisphere and interest of US Government in stable Argentina. He asked that favorable consideration be given to new loan on a frankly political basis.

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out the Foreign Minister as to present Government desires. It is repeated, however, that authority to negotiate has not been obtained, and the impression should not be given that the US is immediately prepared to enter into negotiations.

"3. If reactions to paragraphs 1 and 2 are affirmative, to review the attached text and submit its comments. The Embassy should particularly note any wording or provisions which might in its judgment be troublesome in negotiation." (Department of State, Central Files, 735.5–MSP/6–457)

In despatch 800 from Buenos Aires, December 5, Ambassador Beaulac enclosed a memorandum of a conversation which he had with the Argentine Foreign Minister on December 4, "during which we agreed that because of the imminence of national elections in Argentina, the present would not be an appropriate time to negotiate a military agreement with Argentina." (*Ibid.*, 735.5–MSP/12–557)

[1] Source: Department of State, Central Files, 835.10/10–857. Confidential; Niact.

[2] In this aide-mémoire the Argentine Government asked for Export-Import Bank loans totaling $150 million, including $60 million for railroads, $23 million for the Rio Turbio coal mines, $6 million for sanitary works, and $60 million for the private sector. The aide-mémoire was transmitted to the Department in despatch 282 from Buenos Aires, August 28. (*Ibid.*, 835.10/8–2857)

After the conclusion of the Buenos Aires Conference, Coll Benegas went to Washington to explain the Argentine position regarding new U.S. loans. Telegram 604 to Buenos Aires, October 4, reported that Coll Benegas, in conversations with officials at the Departments of the Treasury and State and the Export-Import Bank, "has stressed need for additional U.S. gesture toward Argentina to help bolster Prov Govt next few months." (*Ibid.*, 835.10/10–457)

I told Minister I could assure him both State Department and Export-Import Bank very much interested in Latin America and referred to recent bank record. I said what bank sought was good projects and that for more than a year I had repeatedly urged Argentine Government to fulfill promise which Coll Benegas had made with President's authorization on his first mission to Washington to settle packers and ANSEC case in order to place our government in position to extend further credits to Argentina. I said I was encouraged by very substantial progress in meat packers' case and still hoped for similar progress in ANSEC case. I referred to conversations between Yadarola[3] and American and Foreign Power but said had impression no progress so far.

Minister said Ministries of Finance and Industry continue urge settlement of ANSEC case but there is opposition within Cabinet principally from Minister of Justice who is lawyer and objects on technical grounds.

I asked Minister whether he thought constituent assembly draft amendments to constitution might be interfering with Argentine credit board. He replied "tremendously" and expressed hope assembly would shortly adjourn for lack of quorum without enacting amendments.

(Reference: Embtel 602).[4]

I told Minister I would convey his message to Department.[5]

Beaulac

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[3] Mauricio Luis Yadarola, Argentine Ambassador to the United States.

[4] Dated October 8. (Department of State, Central Files, 735.00/10–857)

[5] Beaulac transmitted a more detailed memorandum of this conversation to the Department in despatch 501 from Buenos Aires, October 8. (*Ibid.*, 835.10/10–857)

243. Memorandum of a Conversation, Department of State, Washington, October 17, 1957[1]

SUBJECT

Argentina: US Loans

PARTICIPANTS

Ambassador Mauricio Yadarola of Argentina
Dr. Carlos Coll Benegas, President, Banco de la Nación
Mr. C. Douglas Dillon, Deputy Under Secretary for Economic Affairs
Mr. Thomas C. Mann, Assistant Secretary for Economic Affairs
Mr. R. R. Rubottom, Assistant Secretary for Inter-American Affairs
Terry B. Sanders, Jr., Acting Director for South American Affairs

Ambassador Yadarola stated that he had been instructed by his Government to call at the Department to ask that full consideration be given by the United States Government to important political factors bearing on further United States financial assistance to Argentina. The Ambassador and Dr. Coll were having talks with the Export-Import Bank. The Bank officials were very attentive and desired to be helpful if possible, but they understandably gave great weight to strictly economic considerations. If the Provisional Government in Argentina had had more cooperation from the United States and if that Government had been able to accomplish more since the overthrow of Perón, the Communists, Peronistas and extreme nationalists would not have won as many votes as they did in the election for the Constituent Assembly. Further US loans would strengthen liberal, pro-US elements in Argentina. This is important for Argentina, for promoting close US-Argentine relations, and for the well-being of the Americas. Additional US assistance would demonstrate the utility and importance to Argentina of close relations with the US, and the effect would be a favorable influence on the elections in February 1958. In brief, there is an important connection between the political and economic factors not only in Argentina but also in terms of the interests of the other American Republics. Furthermore, as compared with Brazil, for example, Argentina has received only a relatively small amount of loans from the Export-Import Bank, although the Argentine economy is certainly as important and as strong as that of Brazil. On economic grounds, Argentina has a great potential and is undoubtedly a good risk.

Mr. Dillon answered that we very much appreciate the desirability of close US-Argentine relations and that the US sincerely wishes to see Argentina prosper and to achieve the important place in the hemisphere that it should have. We are also aware of the . . . difficulties confronting the Provisional Government in its efforts to rehabilitate the Argentine economy. Evidence of US interest in Argentina has already been given in a variety of ways, including a sizeable amount of loans already made available to the Provisional Government. It would be a mistake, however, for Argentina to look to sources of US public funds for all of the financing required to promote Argentina's rapid recovery. It may be that Argentina would actually need a $1 billion or more, but obviously US public funds in this amount will not be available because of the worldwide demands on the United States. Argentina must necessarily look to private domestic and foreign capital. It is very important that the Provisional Government comply with requests already made of it by the US with respect to the American & Foreign Power Company, the banks, and the meatpackers. The progress already made with respect to the meatpackers' problems is welcomed. Nothing, however, has been done about the banks' balances and the A&FP. A solution to these problems is necessary to improve the private investment climate and also to make it easier for the US Government to be helpful. With respect to the A&FP, for example, the most important thing is to achieve a settlement, whether the Argentine Government decides to buy the company entirely or whether an arrangement is agreed on to allow the company to continue operations on a satisfactory basis.

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[1] Source: Department of State, Central Files, 835.00/10–1757. Official Use Only. Drafted by Sanders.

The Ambassador said that he was under specific instructions from his Government to devote his best effort to solving the A&FP problem. This issue, he assured, can, must, and will be resolved. The Ambassador has already had two interviews with A&FP officials. Next week he will have another meeting with them to receive data he has requested. He hopes soon to have prepared his own proposals for settling the problem, and he will be happy to make these known to Mr. Dillon and other officials in the Department. The Argentine Government has nothing to hide with respect to its relations with the A&FP, and it earnestly desires to reach a settlement.

Dr. Coll pointed out that the Provisional Government, despite shortcomings, has made much progress in coping with economic problems. For example, many controls have been abolished, and foreign exchange is free so that foreign firms can remit profits. The US firms in Argentina, he said, are generally pleased with the conditions under which they can now operate. In effect, the private investment climate has improved considerably. The Provisional Government is grateful for the support already provided by the United States. Also, it is gratifying that the New York banks have just extended a credit of $27 million to the Argentine Central Bank.

Mr. Dillion said that the banks had consulted him before making their decision. He told them that in terms of United States-Argentine relations their loan would be desirable, although the business aspects of it would have to be decided by the banks themselves.

The Ambassador and Dr. Coll expressed their appreciation for Mr. Dillon's support on this loan.

In conclusion Mr. Dillon indicated that he will discuss with the Export-Import Bank Argentina's request for further credits.[2]

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[2] The Department summarized this conversation for the Embassy in telegram 704 to Buenos Aires, October 18. (*Ibid.*, 835.10/10-1857)

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244. Memorandum of a Conversation, Department of State, Washington, October 25, 1957, 4:45 p.m.[1]

SUBJECT

Financial Assistance for Argentina

PARTICIPANTS

W—Mr. Dillon
ARA—Mr. Rubottom
Ex-Im—Mr. Brand, Mr. Sauer
OSA—Mr. Sanders
OSA—Mr. Vaky

The discussions began before Mr. Dillon joined the group.

Mr. Rubottom noted that we had been given [*giving*?] considerable time to policy review of this subject, and that events were moving rapidly. He noted the recently passed banking reforms, the Radical Party convention which modified the economic stand of the party, and Ambassador Beaulac's recommendation for assistance at this time in the private sector (Embtel 699).[2]

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[1] Source: Department of State, Central Files, 835.10/10-2557. Confidential. Drafted by Vaky.

In a memorandum to Dillon, dated October 24, Rubottom wrote in part as follows: "the problem of Argentina continues uppermost in my mind. I believe that those of us most directly responsible for United States policy toward Argentina would greatly benefit from a discussion at the highest possible level to weigh all the factors involved." He suggested that a meeting be called as soon as possible between himself, Dillon, Waugh, and their respective staffs. (*Ibid.*, 611.35/10-2457)

[2] Dated October 24. (*Ibid.*, 835.4241/10-2457)

Mr. Brand said that the Bank had also been giving the matter considerable thought. He said that in the past two weeks the Bank has been looking for something it might be able to do to ease the situation. Unsure that State would concur and in view of Ambassador Beaulac's earlier recommendations that the Bank extend no gesture in the financial field, the Bank saw little it could do. Meanwhile Coll was pressing very hard, and as a result the situation hardened. Mr. Brand described Coll's various talks with Mr. Waugh, the most recent of which had been this morning.[3] In this morning's conversation, Mr. Waugh had told Coll that a) the Bank needed more time for consideration of the Argentine Aide-Mémoire requesting $150 million in loans; b) this was not a closing of the door; and c) the Bank continues ready to consider credits in the private sector. Dr. Coll pressed Mr. Waugh for an answer. Mr. Waugh replied that if pressed today for an answer he must say that at this time the Bank was not prepared to make additional loans for railroads or the coal industry.

Mr. Brand said that Dr. Coll took that as a closing of the door and as an indication that the Bank would not do anything for the Provisional Government. He had told Dr. Coll earlier that he had misunderstood. The Bank was not closing the door, had only said that *at this time* it could not move, but this had nothing to do with the Provisional Government.

Mr. Brand observed that in view of Coll's talks with Mr. Waugh and the conversation today it would be very difficult to flip-flop over night. This would cause the Bank great difficulties. As regards aid in the private sector, he noted that the $15 million had not been utilized and would probably not be utilized for a long time. To establish now an additional line of credit would not make sense, especially when the Bank knew it would not be utilized for some time. He also mentioned the relatively small remaining lending authority as a problem and the fact that Congressional consideration of the Bank's loans was also a factor. The Bank could hardly in these circumstances justify to Congress the earmark of more money for Argentina when the promptness of its utilization was doubtful.

Both Mr. Brand and Mr. Sauer expressed the opinion that a line of credit to the private sector might be a slap at the Government. They reasoned that at a time when the Provisional Government was seeking loans to it, the Bank's ignoring that and making loans to the private sector might not help the Government.

Mr. Dillon joined the meeting at this point.

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[3] Memoranda of Waugh's conversations with Coll Benegas on October 24 and 25 are *ibid.*, 103–XMB/10–2557.

Mr. Rubottom observed that while it was true that the situation had hardened somewhat as a result of Waugh's talks, we could not overlook the fact that the situation was changing in Argentina and for the better. There was clearly some progress being made, and we could quite justifiedly do something on the grounds that the situation had changed. Mr. Dillon added that some of the pluses were on our side and that anything we might do could be tied to the progress made by Argentina.

Mr. Brand said that the real question was what could we do. Mr. Dillon asked what it was the Argentines were pressing for the most, and Mr. Brand replied that it was aid for transportation. Mr. Dillon asked if the Bank was willing to consider further assistance to the railroads. Mr. Brand replied that there was some reluctance by the Bank in that regard. He noted that the capital needs of the railroads were tremendous and that the IBRD had indicated that about the only thing it would be interested in Argentina were the railroads. The IBRD had also made clear, however, that it would do nothing until a new Government came in. Given the great magnitude of capital needs the Bank was a little reluctant to get in too deep. Mr. Brand did acknowledge, however, that the railroads probably provided a very sound economic development project. In response to other questions he indicated that Dr. Coll was more interested in the railroads than the coal project.

Mr. Brand suggested something else, which he said might appear shocking at first. If the A&FP matter could be cleared up the Bank might consider financing in the power field perhaps both public and private power projects. It was acknowledged, however, that the A&FP and general power picture would probably not be cleared up any time soon to the point where the Bank might give consideration to this matter. Hence this would not help the immediate situation.

Mr. Dillon asked if consideration might not be given to a mixed public-private sector line of credit as was made last time, say $50 million of which $40 million would be for railroads and $10 million for private loans. He acknowledged that a line of credit for the private sector to be subsequently allocated on a case by case basis probably did not make economic sense as sound Bank procedure.

Mr. Brand and Mr. Sauer explained that agreement had been reached, with Dr. Coll on procedures to implement the allocation of the $15 million, and the first loan thereunder, for $26,000, would be announced soon. They also indicated that the Bank had not defined any limit for private sector loans. This would depend upon the merits of individual applications. The Bank was prepared to go beyond $15 million if sound applications were at hand. They said that the possibility of a public announcement had been considered but as of that afternoon the Bank had decided against it. This however would not preclude the possibility of changing and making such an announcement. Mr. Sauer expressed the opinion that some public announcement was necessary to make known to industry that they could apply for loans.

Mr. Dillon suggested the possibility of such a public announcement as a means of taking the pressure off and indicating willingness to move ahead in the private sector. In the meantime we could give further consideration to possible assistance to the railroads, which would also give us time to see the results of the Constitutional Convention.

After further discussions it was decided that the Bank would

a) Give immediate consideration to a public announcement that agreement had been reached with the Argentine Government on procedures to implement the allocation of the $15 million. Such an announcement would also indicate that $15 million was not a ceiling, and that the Bank would consider applications beyond that amount. This might serve as a helpful psychological gesture for the Provisional Government.

b) Consider the possibilities for further assistance in the railroads and possibly in the coal industry, including technical study of the latter.

Mr. Brand said that Mr. Waugh would return on Sunday and that he would notify him immediately of this conversation and show him the various pertinent memos. He himself would be leaving next week but would return the following week.[4]

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[4] In telegram 766 to Buenos Aires, October 29, the Export-Import Bank informed Ambassador Beaulac as follows:

"Position of Directors remains consistent as follows:

"We favor an announcement that Bank is prepared (1) to implement credits in private sector in previously authorized amount $15 million and (2) thereafter is prepared to consider additional private credits above that amount on case-by-case basis. Preference will be given to credits that will improve dollar exchange position."

The telegram also stated that the Directors of the Export-Import Bank "do not favor at this time any further announcement or commitment regarding public sector." (*Ibid.*, 835.10/10–2657)

245. Memorandum of a Conversation Between the President of Banco de la Nación of Argentina (Carlos Coll Benegas) and Viron P. Vaky of the Office of South American Affairs, Washington, October 29, 1957[1]

SUBJECT

Argentine Financial Assistance

The following conversation took place at lunch.

Dr. Coll began by indicating he was disheartened by the results of his visit, and intimated that he felt a hardening of the US attitude toward Argentina. His main worry, he indicated, was what people in Argentina would think who might not understand the situation and problems here. The Argentines he said must judge by realities, and might feel that the US did not care about Argentina.

It was very difficult, Dr. Coll mused, to be treated like a schoolboy with the school master saying you did fine on that problem but you forgot the comma over here, so let's see how you do next term and maybe you will get a better mark.

Dr. Coll said that he and Dr. Krieger had worked very hard to get the right economic measures pushed through. Both he and the Minister fought through the banking reforms almost alone. Having fought so hard to do the right thing, it was doubly discouraging to be patted indulgently on the head and told only that there is much more to be done.

Dr. Coll said that the most important thing at this point was the psychological factor. The Government and the pro-US elements must have some sign to show of US support. It is not at this stage as important to actually get cash, and to say that no help can now be given because the money was not immediately available did not relieve the situation. If only the US could say that we are interested in Argentina and while we cannot make commitments we will study immediately this, that or the other thing, it would be a great help.

I said that I could certainly assure him that the US was very interested in Argentina and sympathetic to its problems. We desired to be as helpful as we could. There were obviously factors which we had to take into consideration in determining how we could help, such practical matters, for example, as the Bank's lending authority and similar problems. I noted, that the Eximbank was prepared and had so informed Dr. Coll, to move in the private sector, and that the $15 million earmarked from the previous line of credit was not a limit. The Bank is prepared to go beyond that on a case by case basis. I said that I hoped there was no misunderstanding of the US position by his Government. I stated that we had been informed that the Foreign Minister indicated an Argentine understanding that the Eximbank had closed the door on private credits. This was certainly not the case. In fact the door was not closed anywhere, and the Bank was carefully considering Argentina's situation.

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[1] Source: Department of State, Central Files, 835.10/10–2957. Confidential. Drafted by Vaky.

Dr. Coll remarked sadly that the door might be open but he certainly could not get through it. He said that he had had some hopes when he arrived that additional assistance or support could be obtained in some field, but suddenly he felt as if the roof had collapsed and everything suddenly hardened. He had the impression that people felt it would be best if he left Washington as soon as possible. He said he was frankly groping in the dark. That was why he was leaving. He knew when his usefulness was ended. He said he had only been trying to convince people of the importance of this problem and not to pressure them.

Near the end of the conversation Dr. Coll brought up the CADE question. He said that he was sure it was badly handled, and it had hurt them. If he had been asked what to do he would have advocated not cancelling the concessions. He said that it was nevertheless a moral question, and his Government from its own viewpoint and needs was compelled to rectify that moral blot. The point was, he said, that the people who handled this situation did what they thought to be the honest and right thing. Having done so it hurt to be accused of being dishonest. He said that the Argentine Government also mishandled the explanation and should have explained the case better.

CADE, he said, had a great deal of influence in this country, and the incident had obviously prejudiced a good number of people here. I hastened to say that so far we were concerned the thing we regretted was the repercussions in trade and financial circles and the damage to the general economic climate. I emphasized strongly that the US Government was not concerned in the company's problem as such. It was not an American problem and the company's interest there presented no obstacle in US-Argentine relations. I said that I thought it very important that he and his Government not misconstrue comments he may have heard on this matter as anything indicating we were involved or linked to this company's interests.

Dr. Coll said that that might be true of the State Department, but he felt sure, for example that the CADE case had a great influence on the IBRD. Moreover there were people in CADE (by context he implied SOFINA) who were very influential in this country.

Dr. Coll ended the conversation by remarking that he knew Argentina had many friends in this Government. He said he hoped the US would recognize the good will and intentions of his people, and just as we asked for recognition of the many problems we had to cope with internally that we recognize their problems.

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246. Special National Intelligence Estimate[1]

SNIE 91–57 *Washington, November 12, 1957.*

THE OUTLOOK FOR ARGENTINA[2]

The Problem

To re-estimate the prospects for a return to an elected government on schedule in May 1958. (In NIE 91–56, *The Outlook for Argentina,* 17 July 1956,[3] we had estimated these prospects to be "slightly better than even.")

Conclusions

1. The current regime under General Aramburu still intends to hold elections in February and to relinquish its power in May 1958. However, it is likely that the political situation will deteriorate measurably under the stresses and strains of the electoral period. In this atmosphere, there is a good chance that military elements will become increasingly concerned over the apparent ineptitude of political party leadership, over the deteriorating economic situation, over the uncertainty of the electoral outcome, and over labor unrest and Peronist subversive activity, and that consequently these military elements may act to alter present political plans. Nevertheless, we believe there is an even chance that majority popular and military sentiment for a return to constitutional government will enable Aramburu to hold elections as scheduled. However, if the elections take place and their outcome is unsatisfactory to key military

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[1] Source: Department of State, INR–NIE Files. Special National Intelligence Estimates (SNIEs) were high-level inter-departmental reports presenting authoritative appraisals of vital foreign policy problems on an immediate or crisis basis.

[2] According to a note on the cover sheet, the following intelligence organizations participated in the preparation of this estimate: the CIA and the intelligence organizations of the Departments of State, the Army, the Navy, and the Air Force and the Joint Staff. All members of the IAC concurred with the estimate on November 12 with the exception of the representatives of the AEC and the FBI, who abstained on the grounds that the subject was outside their jurisdiction.

[3] Document 217.

elements, there is a better than even chance that the military would move to upset the election results.

2. In any event, without substantial foreign assistance, the economic situation seems likely to get worse and thus add to the problems of political stability.

Discussion

3. *The Political Situation.* An increasing number of difficult political problems confront the Aramburu regime as it prepares for a return to constitutional government. In July a Constituent Assembly was elected for revision of the 1853 Constitution. The elections failed to produce a clear indication as to the probable outcome of the 1958 general elections now scheduled for February.[4] The popular vote was about evenly split between the pro-government forces and the opposition. Moreover, political party leadership does not appear sufficiently concerned with, or capable of handling, the difficult economic and political situation which will face a successor government. Furthermore, divisions within the two leading parties (the People's Radical Civic Union (UCRP) and the Intransigent Radical Civic Union (UCRI)) are contributing to general uncertainty about the electoral outcome and the capabilities of either to head a viable successor government. The seriously split UCRP finds its principal cohesive force in its factions' common opposition to Arturo Frondizi, leftist and nationalist leader of the UCRI. The UCRI is divided between leftist elements and members of more moderate orientation who might defect to the UCRP should Frondizi obtain the Peronist support which he seeks.

4. The Constituent Assembly, which broke down prior to its official date of termination, has adopted practically none of the basic reforms proposed by the government and done little more than revalidate the 1853 Constitution with minor modifications. Although this performance highlights the inability of political leaders to work together in a demanding situation, it does not preclude the transfer

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[4] Constituent Assembly Election Results:

		% of total vote
Pro-Government:	Peoples Radical Civic Union (UCRP)	25
	Minority Parties	25 (est.)
Opposition:	Intransigent Radical Civic Union (Frondizi–led UCRI)	21.5
	Minority Parties	3.5 (est.)
	Blank Vote (largely Peronist-inspired)	25

[Footnote in the source text.]

of power to an elected government. Furthermore, the Assembly's inaction spared the government the embarrassment of all out public debate over controversial issues.

5. *The Economic Situation.* The Aramburu regime has had scant success in trying to overcome its serious economic problems. Agricultural production for export has decreased. The service sector of the economy has witnessed little significant development, and foreign private investment has increased only slightly. Argentina's financial position shows little improvement, although the government has reduced its anticipated 1957 balance of payments deficit from $210 million to $75 million, principally by seeking extensive credits. Dollar reserves have dropped substantially and now amount to only about $38 million. The government has already had to dip heavily into its gold reserves, now reduced to $126 million. Thus, the regime will leave a legacy of heavy debt and depleted reserves to any successor government.

6. In recent months serious domestic inflation has virtually wiped out benefits from 1956 wage increases and brought intensified pressures from labor groups for wage boosts. In its attempt to restrain inflationary tendencies, the regime froze wages through February 1958. General labor dissatisfaction erupted in September and again in October of this year in the form of Peronist-dominated general strikes. Aided by the fact that most non-Peronist unions refused to follow Peronist leadership, the government was able to control both strikes. Nevertheless, labor unrest is likely to increase in view of the accelerated rise in the cost-of-living and the government's continued refusal to grant desired wage boosts.

7. *The Attitude of the Military.* The survival of the present regime still depends upon the support of the armed forces. The majority of the military still appear to accept the prospect of general elections as scheduled. While there is a small group which favors postponement of elections and continuance of the military in power, there is as yet no firm evidence that any military group is strong enough to interfere with the regime's plan. Controversy and division within the military over appointments and over the regime's policies are continuous. However, we believe that the resolve of certain powerful military elements to permit transfer of power may have been weakened by dissatisfaction with the current situation and fear that an acceptable and effective successor government will not emerge.

8. *Prospects.* The current regime under General Aramburu still intends to hold elections in February and to relinquish its power in May 1958. However, it is likely that the political situation will deteriorate measurably under the stresses and strains of the electoral period. In this atmosphere, there is a good chance that military elements will become increasingly concerned over the apparent inep-

titude of political party leadership, over the deteriorating economic situation, over the uncertainty of the electoral outcome, and over labor unrest and Peronist subversive activity, and that consequently these military elements may act to alter present political plans. Nevertheless, we believe there is an even chance that majority popular and military sentiment for a return to constitutional government will enable Aramburu to hold elections as scheduled. However, if the elections take place and their outcome is unsatisfactory to key military elements, there is a better than even chance that the military would move to upset the election results.

9. In any event, without substantial foreign assistance, the economic situation seems likely to get worse and thus add to the problems of political stability.

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247. Memorandum From Viron P. Vaky of the Office of South American Affairs to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, December 16, 1957.

SUBJECT

US-Argentine Relations

The attached paper attempts to give some thought to our relations with Argentina. It poses two premises—a) that the establishment of good relations with Argentina should be one of the most important objectives of our Latin American policy, and b) that considering the advances we have made in this regard and the fact that the present climate is very propitious for this, we must take action *now* to nail this advantage down and consolidate a tradition of cooperation with Argentina.

The suggested courses of action to reach these objectives are general and cover both long and short range steps. For summary purposes, however, the actions which we can and should take immediately are:

1. Urge immediate consideration, and extension where indicated, of additional financial assistance, specifically in transportation and possibly the Rio Turbio coal project. High priority should be given to this.

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[1] Source: Department of State, Central Files, 611.35/12–1657. Confidential.

2. Seek expeditious resolution of the two small, but very irritating problems of CAB approval for the private Transcontinental airline and waiver of PR 17.[2]

3. Should the Argentines indicate a desire to continue PL 480 discussions if they can achieve an increase in the amount of cotton offered, urgently and strongly fight for that increase.

4. Be prepared to move expeditiously and soundly on requests for technical assistance projects which are expected very shortly.

5. Seek to improve the quality of and extent of exchange of persons.

6. Give immediate consideration and planning to possibility of a presidential visit next year, and possibly some interim visits of key personalities such as the Foreign Minister if this can be arranged.

[Attachment][3]

ARGENTINE-US RELATIONS

This paper poses certain considerations with respect to our policy toward Argentina and suggests certain courses of action in the light thereof.

I. Policy Goals

It is recognized that in the past certain historical and economic factors have tended to prevent close US-Argentine collaboration. These antedated Peron, and will almost certainly continue to exert their influence for some time to come. Geographically and historically, Argentina has been isolated and isolationist. Placed outside the main currents of world events and crises, and richly endowed with natural agricultural wealth, Argentina has tended to be a nationalistic and egocentric nation, covetous of Latin American leadership but chary of assumption of complementary international responsibilities which do not directly serve her own interests. The US and Argentina have parallel and competitive agricultural export economies, and this factor has naturally provided irritants in relations between the two nations. Most recently, the pro-Axis orientation of the Argentine Government during World War II and the rabid anti-US policy of Peron during most of his regime clouded US-Argentine relations.

Conceding the above, the US still has very compelling reasons affirmatively to seek to maintain and improve the present state of friendly relations between the two countries.:

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[2] Public Resolution 17, enacted by the 73d Congress on March 26, 1934, required that U.S. Government-financed cargoes must be shipped in 100 percent U.S. bottoms, but that this requirement might be waived in certain cases. For text, see 48 Stat. 500.

[3] Drafted by Vaky.

1) By virtually any criteria—size, strategic location, population, cultural level, resources—Argentina is one of the most important of the Latin American countries. On this ground alone, developing good relations with Argentina would be in the interest of the US.

2) By virtue of its importance in Latin America, US-Argentine accommodation is important to hemispheric solidarity;

3) In the face of the East-West conflict, US-Argentine interests coincide far more than they clash. Conversely, Argentina would represent a tempting target for Soviet penetration.

4) The US would stand to suffer tangible loss of valuable Argentine support in the United Nations and the OAS from any retrogression in relations.

5) Argentina's geographical position and agricultural resources would be of critical importance in the event of another world conflict.

Additional compelling considerations arise from the present situation in Argentina. The present climate is most propitious for improved relations with us. The Government seems sincerely desirous of a closer orientation toward the US, and the receptivity for such an orientation among the general public and political leaders is warmer than in many, many years. The present leadership is trying with some success to lead Argentina out of isolationism in international policy and, with less success, away from economic statism. The period is certainly one of transition and the US is presented with a rare, but passing opportunity to influence attitudes and thoughts and to establish a firm tradition of cooperation such as we have not enjoyed with Argentina in recent history.

In these circumstances, it is in the US interest 1) to strengthen the tendencies now evident of pro-US, pro-West, moderate democratic policies and the elements advocating them by strengthening friendly relations with the present regime and extending constructive assistance to it in meeting the immediate and serious problems it faces; 2) to demonstrate to the Argentine political leaders and the people the value of cooperation with us and 3) to firm up these tendencies and build a tradition of co-operation which would be difficult to reverse and thus lessen the danger of a later shift of political policy to an anti-US orientation.

I submit that given the present opportunities, the attempt to create such a relationship with Argentina should be one of our most important goals in our Latin American policy.

II. Present Situation

The following factors appear to characterize the recent situation in Argentina in the status of US-Argentine relations:

1) As indicated the present leadership is as sincerely pro-US as any in recent history. It is frankly friendly to us and has turned to

us for assistance in meeting problems. It desires to cooperate with us.

2) Military leaders in important command posts in all three services are friendly to the US and disposed to a policy of cooperation with us. Interestingly enough some of the more realistic thinking going on in Argentina about Argentina's problems is centered in the military rather than among the "politicos".

3) There is a remarkably widespread public acceptance of the notion that closer ties with the US are desirable, although sensitivity to the terms under which such ties should be established is also widespread.

4) The Provisional Government has sought to move Argentina out of its traditional neutralism. Argentina has in fact begun to play a more affirmative role in international organizations, ratified many international pacts and otherwise started to swing away from neutralism. The Government has also sought to move toward freer economic policies. These trends have been acquiesced in by the public.

5) Such trends however, can hardly be said to have hardened into a firm orientation. Given the imbedded tradition of isolationism and neutralism it is quite possible that these could be reversed.

6) As Ambassador Beaulac has pointed out, no significant party or political leader has embarked on any anti-US campaign in the present electoral period, although it would have been easy to do. There has been much talk about economic imperialism and exploitation of natural resources, but this has been largely in an introverted Argentine context. Such "mystiques" have not been identified with US policy as they might well have been. The result is that there has been no anti-US sentiment whipped up and no apparent inclination to do so for political gain.

7) The Provisional Government has shown extreme sensitivity to its status as a de facto government and has considered itself unable to make many basic decisions which would have been fundamental in determining Argentina's future orientation. These are being passed on to the elected government for decision.

Most of them will by May have become more acute than they are now. The elected Government will have to face up to them and cannot evade that responsibility as did the present regime by claiming it was de facto. Therefore, Argentina will, in a very real sense, be at something of a cross-roads after May 1.

It is probable that any government likely to be elected will be more "political" than the present government, more sensitive to the old traditions, probably more nationalistic at least in economic policies. It is likely also to be less affirmatively friendly to the US, and more inclined to examine critically any relationship to us. However, whatever may be the sentiments of the leaders of any elected government as regards the US, it is certain that they cannot ignore their country. Consequently, almost the first task of the new government will be, of necessity, to reassess Argentina's relationship to us in the light of their problems and needs, and to decide on economic and international policy orientation (which itself affects Argentina's relationship to us). Therefore the extent to which their judgments as to the value of cooperation with this country may be influenced either now or in the future becomes very important.

The deteriorating economic situation will clearly be the most significant problem the new government will have to face. Due to the criticalness of the economic situation the new government will have to show some results and will not be able to temporize or muddle through for long. Its choices will be few—either it swings toward freer economic policies including greater utilization of the resources of private foreign capital or it will try to swing left toward greater controls and statism. It will be a painful dilemma, given the mystiques imbedded in the Argentine psychology. We may be sure that the Communists will try and influence that decision, primarily through exploitation of domestic issues by the native Party, and possibly through an economic offensive designed to give the Government an "out" from this dilemma and increase economic orientation toward the Bloc. Opinions will differ as to the probability of such an eventuality as the latter point, but it seems to me we cannot deny Soviet capability of launching such an offensive if it wants to nor dare we ignore the possibility that it may want to.

If this is so, we can well ask, given the short time remaining for the Provisional Government, why we should not back off, wait and see what type of government is elected and be prepared at a later time to step in with help and try and influence the new government.

The answer to such a question, I strongly believe is that it is essential for the US to maintain a frankly friendly policy toward the *present* regime and to continue, and indeed increase to the extent possible, tangible help and gestures of support. In fact I believe it is particularly important to do this at the present time despite the limited tenure of the Provisional Government. This is so because:

1) The Provisional Government is committed to a pro-US orientation and is identified in the public mind with such an orientation. It has sought our assistance and is likewise identified in the public mind with such a seeking. It has favored, at least publicly, moderate democratic policies similar to those we would like to see developed. However ineptly it may have done this and however limited its success, it again is associated in the public mind with such policies. It can fairly be assumed that the reaction of the US to all these factors particularly in terms of what we do with regard to Argentine problems, is being closely watched by political and military leaders and the public in general. To a real degree future judgments that may be taken by a new government are already being influenced by present events. It might be said in short, that what we do now will have an important effect on the new government by example.

2) We should continue our support of the Provisional Government in order to maintain the cooperative feeling that has already

developed (this is important) and to solidify it as much as possible. The more that is done now and the longer the experience of friendship and cooperation the more difficult it will be to reverse. Although the remaining tenure of the Provisional Government is short, now is the time to "nail down" to the extent possible this "tradition" of cooperation and support, simply because this is the most propitious climate. Despite the few months that remain before May 1, much of significance can be done. For example, sound beginning to implementation of the technical assistance agreement, possible further gestures of support in the financial field, waiver of PR 17 and similar items.

3) Given the fact that the Government is frankly desirous of our continued support and aid—probably as much in the next few months as it has been previously—a continued policy of open and frank support will strengthen the future posture and influence of those elements which advocate and wish to see a pro-US orientation. Even though recent Government leaders have disqualified themselves from participation in the next government, they will undoubtedly have considerable influence on the political scene. Aramburu, for example, may become something of an elder statesman. To the extent that they will have influence, the more they will have been able to demonstrate the wisdom of cooperating with us and adopting moderate policies the stronger will be their arguments for continued orientation of this type. This is true also of those political leaders and sectors which are disposed to and advocate cooperation with us. This argument applies with special force, however, to military leaders who are favorably disposed toward this policy and who will continue in power. The military will continue to exercise important political influence. Virtually any government which may be elected will have to obtain military support, and the more controversial the government the more necessary such support. Therefore the more such military leaders are convinced of the necessity of a pro-US, moderate, democratic political and economic policy, the less danger there is of a shift to an anti-US, nationalistic orientation.

4) In the same view, to slacken our support now (i.e. to decline for tactical reasons to do things it is in our power to do) and then to move in again later to try and influence the new government and prevent an unfavorable shift in policy, is likely to encourage a cynical judgment of the value of working with us. That is to say, political elements will be encouraged to conclude that we react better against threats of what might happen if we do not help than to positive sincere attempts to follow moderate policies, and that protestations of friendship need only be tactical.

III. Course of Action

If all the above is true, the next question is what can we do to achieve our objectives. The following are suggested courses by specific operational area:

A. *Psychological.* The Argentines are a peculiarly sensitive, egocentric and to some degree naive people. I know of few countries where the psychological element is as important as here, that is to say the tactics, the appearance, the manner in which dealings take place. The

Argentines attach a great deal of importance to these matters. In the present context, the Provisional Government attaches considerable importance to expressions of support for it and in particular is anxious for signs of approbation, support and friendship from the US. We should not underestimate the value of this element in our developing relations. There are several ways of doing something—or not doing it—and it will repay us to take pains in how matters are handled. While we may be limited in the amount of tangible assistance we can extend, we can do something about the psychological element.

There are concrete examples of this. On the positive side, the USAF participation in Argentine Aviation Week was a very effective psychological operation.[4] On the negative side, our handling of four problems to which the Argentines attach importance—tung oil, request for PL 480 cotton, CAB approval of Transcontinental schedules to the US, and request for a PR 17 waiver—has not been such as to create confidence in our announced intentions of cooperating with Argentina. Delays in these matters may perhaps have been unavoidable, and they are mentioned here merely to emphasize why we should be alert to avoiding a poor psychological effect to the extent that we can.

The considerations posed here would apply not only to our dealings on individual problems, but to such things as exchange of persons programs, and protocol visits as well. Specific policy guides in this operational area are suggested as follows:

1) Maintain an attitude of frank, sympathetic friendliness in the discussion of all political and economic issues which may arise; and avoid unexpected unilateral action to the maximum degree possible, emphasizing a consultative approach, and thus cushion any unavoidable blows.

2) Handle Argentine requests in various fields with promptness and tactfulness. Where necessary refuse requests, do so with a maximum of tactful consideration and based upon sound explicable reasons. *Now specifically,* seek expeditious resolution of the Transcontinental and PR 17 problems.

3) To the extent that regional considerations will permit, accede to the Argentine desire for prestige in international organizations and support Argentine international candidacies.

4) Promote the exchange-of-persons program in both directions to the maximum extent possible.

5) Capitalize on the importance Argentines give to personal relationships by extending to highly-placed Argentine officials all available protocolary and personal courtesies. Consider, as factors will permit, arranging for visits to this country of strategically placed and influential Argentines. *Now specifically,* consider the feasibility of a presidential visit next year.

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[4] Documentation is in Department of State, Central Files 711.5835 and 835.424.

B. *Economic.* The economic sector is clearly the most critical area of our relations. The need for external assistance is clear, as is the Argentine aspiration for help from us. This is also a field in which it would appear that we could extend additional help. It is not suggested that anything we could possibly do would solve Argentine economic difficulties. However where there are sound projects for which debt servicing capacity and our own over all loan policy would not preclude our assistance, it seems to me we should meet these requests. Aside from the intrinsic economic aid this would mean, the moral and psychological support it would imply, would seem of prime importance as outlined above. I believe, moreover, that these questions deserve a high priority, and I strongly concur with the recommendations of Ambassador Beaulac in his cable 890.[5]

In addition to financial aid, US interests would also indicate the importance of avoiding US actions adverse to Argentine economic interests to the maximum degree possible, such as trade restrictions.

Specific policy guides in this operational area suggested as follows:

1) Support and urge consideration of, and extension where economically indicated, of financial assistance to projects of US and Argentine interests, with due regard to Argentine progress on economic policy and problems affecting US interests. *Now specifically,* undertake immediate study of this matter based upon Ambassador Beaulac's cable.

2) Seek to avoid new, and if possible remove old, restrictions on the importation into the US of Argentine commodities.

3) Conduct the PL 480 program with due regard for avoiding displacement of Argentine marketing of affected products; and consult as promptly and fully as possible in connection with prospective transactions.

4) Encourage investment of US private capital in constructive Argentine ventures on mutually satisfactory terms.

5) Receive sympathetically and endeavor to meet any reasonable Argentine request for special economic assistance, as, for example, requests to purchase US surplus commodities. *Now specifically,* be prepared to meet any Argentine request for cotton.

6) Be alert to the development of a sound and productive technical assistance program, taking especial care to demonstrate to the Argentines the value of such assistance.

7) Encourage in appropriate fashion, as we have in the past, Argentine cooperation in achievement of Battle Act objectives, and discourage receptivity to Soviet offers of technical and economic assistance.

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[5] In telegram 890, December 9, Beaulac recommended the following: "In circumstances and as gesture our willingness continue economic cooperation with Argentina, I suggest EXIM Bank give consideration to prompt announcement decision to send group to study possible credit for Rio Turbio coal mines as requested by Argentina. Assume in this connection would assure itself Argentina would welcome such study." (*Ibid.,* 103–XMB/12–957)

C. *Military.* The important and politically influential role which the military may be expected to play has been referred to above. Considering the fact that the Army particularly had in the past been the depository of much rabid nationalism and totalitarian feelings, and the present apparent disposition to orient toward the US, it seems highly important that we not miss this opportunity to make our influence felt among these leaders.

We should be alert to all appropriate means of encouraging cooperation and friendship toward the US, such as training Argentine officers, protocol visits and similar items. Where the Argentines take the initiative in seeking to formalize such cooperation, as in mission agreements or a bilateral agreement, we should take advantage of that barring any over riding political risk. In the case of a bilateral, should the Argentines again request one we would find it difficult to refuse having already negotiated bilaterals with some of Argentina's neighbors. In such eventuality however, it would be essential to give the Argentines in advance a realistic and clear understanding of what they may expect, so as to avoid the danger of any illusion that this is a bonanza for military equipment.

Specific policy guides in this area are suggested as follows:

1) Should the Argentines wish at some later date to negotiate a formal bilateral military agreement, be prepared to move in that direction, but with clear prior understanding by all parties as to what may be expected from such an agreement.

2) Stand ready to respond sympathetically to any Argentine overtures for other forms of military cooperation of less-than-pact nature, such as service missions and training of military officers.

D. *Political* The present attitude of both Governments would seem to minimize problems in this area. One possibility of future trouble worthy of mention however, could be the Antarctic issue. There is probably no issue in which the US could get in hot water faster than than on this issue if maladroitly handled.

Specific policy guides in this area are suggested as follows:

1. Utilize consultative approaches wherever possible in discussions of political issues, particularly in such matters as that reflected in conflicting Antarctic claims.

2. Tactfully and as appropriate opportunity offers, seek to stimulate the awareness of the Communist danger and to encourage continuance of the present anti-Communist orientation of the country, and correlatively, seek to encourage Argentina in its more affirmative orientation toward the West.

3. Seek to encourage and have continued Argentina's more positive participation in international organizations. (See also A-3, above).

IV. Recommendations

A. I recommend that we give immediate thought to what our overall approach to Argentina should be in the next year or two, to the extent that this is practicable. I believe it important for us to formulate consciously and concretely specific coordinated guideposts or "plan" and to avoid to the extent we can handling our relations with Argentina on an "ad hoc" basis.

B. In this connection, I recommend that we give high priority to immediate consideration of what steps we might take in the financial field, and that Ambassador Beaulac's recommendation (Embtel 890) be a point of departure for this. If we are able to do anything at all we here should do it very soon.[6]

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[6] A handwritten comment on the source text by Rubottom reads: "An excellent memo. Thanks."

On January 27, 1958, Rubottom forwarded this paper to Acting Secretary Herter with a brief covering note summarizing its major conclusion. (*Ibid.*, 611.35/1–2758)

BOLIVIA

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND BOLIVIA[1]

248. Memorandum of a Conversation, Department of State, Washington, January 25, 1955[2]

SUBJECT

Bolivia's Plans for Economic Development

PARTICIPANTS

Ambassador of Bolivia Victor Andrade
Assistant Secretary for Economic Affairs Samuel C. Waugh
Director, Office of International Financial & Development Policy Jack C. Corbett
OSA—John L. Topping

Ambassador Andrade called at his request, to leave with Mr. Waugh a copy in English of "Memorandum II—Economic Development of the Republic of Bolivia",[3] a study of the present conditions of the Bolivian economy, projects for improving and stabilizing that economy, and the methods by which it is planned to implement those projects. The Ambassador pointed out that there were three fundamental objectives of the Bolivian development program: (1) Improvement of the mining industry by mechanization and increased labor efficiency; (2) development of other sources of foreign exchange, which meant in practical terms development of Bolivia's petroleum resources; and (3) increased production within Bolivia of the country's agricultural necessities. There were certain other steps which were complementary to these main objectives, such as improved systems of transportation. Success in this development program would mean the creation of a stable economy in Bolivia. The Memorandum discussed in considerable detail and in a forthright manner present conditions in Bolivia, the problems and the steps which would have to be taken to overcome them. It had been prepared by the several agencies of his Government interested in the matter, under the general supervision of the Ministry of Foreign Relations. Technicians both of the United States and the United Nations had collaborated in the study. The Ambassador pointed out that the study clearly demonstrated that external grant aid for Bolivia would be necessary for the next few years, but that it was hoped that the development program would cause the need for such aid to disappear rapidly thereafter. His Government hoped that the necessary aid would be forthcoming from the United States, and that the Memorandum would serve as a guide to indicate the kinds of aid required, as well as a demonstration of the efforts being put forth by the Bolivian Government and the necessity for help.

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[1] Continued from *Foreign Relations,* 1952–1954, vol. IV, pp. 485 ff.

[2] Source: Department of State, Central Files, 824.00/1–2555. Unclassified. Drafted by Topping.

[3] Not printed. (*Ibid.* 824.00/1–2455)

Mr. Waugh said that one of the Bolivian problems which was causing the U.S. Government serious concern was the continuing inflation in that country. The Ambassador said that the principal cause of the inflation was the fact that costs of production in the Bolivian mining industry were greater than the income received from the sale of its production abroad. His Government would take all possible steps to correct that situation, but in the absence of improvement in the mining industry, which would obviously take some time, felt that the inflationary trend could not be completely halted. In response to Mr. Waugh's question, the Ambassador said that Bolivia hoped to obtain private financing for the proposed pipelines to La Paz and to the Pacific. The Ambassador added that he believed that Bolivian officials, as a result of conversations with Mr. Holland at the Economic Conference at Rio de Janeiro,[4] were already in communication with interested sources of private capital.

The Ambassador pointed out that a principal Bolivian desire was that the Texas City smelter continue in operation. If that smelter were closed, Bolivia would once again be at the mercy of what he called the "International Tin Cartel" and would receive lower prices for its concentrates, and might even find itself unable to sell any tin. The Ambassador was told that the question of the future of the Texas City smelter would be considered at the highest levels of the Administration, and that the decision would be subject to Congressional approval. He was told that it seemed improbable that the United States would purchase additional quantities of tin to be held off the commercial market. Thus, whether the smelter continued in operation or not, it could be expected that the total world demand for tin would drop within the next year to approximately 135,000 tons per annum, in comparison with a consumption of about 160,000 tons per annum during the period when the United States was stockpiling.

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[4] For documentation on the Rio Economic Conference, November 22–December 2, 1954, see *Foreign Relations*, 1952–1954, vol. IV, pp. 313 ff.

Mr. Waugh assured the Ambassador that the Memorandum, which he found excellent on a cursory examination, would receive careful and sympathetic study and consideration by the Department.

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249. Telegram From the Ambassador in Bolivia (Drew) to the Department of State[1]

La Paz, April 1, 1955—11 a.m.

185. Department telegram 159.[2] March 24 decree raising salaries and wages precipitated controversy involving COB and so-called labor ministers touching off spate of low-grade rumors of imminent government collapse. (See Weeka number 12, despatch 421, March 25)[3] Communists capitalizing situation through flood of fly sheets baiting government about inadequate wage increase and rising cost of living with FSB gloating expectantly in wings. Impossible now forecast outcome although situation definitely improved last forty-eight hours. While I have placed all US government agencies on discreet alert status our first hand contacts this week with President Paz, Lechin, Guevara[4] and other Cabinet Ministers revealed no nervousness on their part. I have not considered that either rumors or known facts justified any message at this stage which might cause alarm.

Early announcement of approval pending Export Import Bank credits[5] would supply strongest available support for Paz regime (see Embassy telegram 179, March 29).[6]

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[1] Source: Department of State, Central Files, 724.00/4–155. Secret; Niact.

[2] In telegram 159, March 31, the Department requested the Embassy to assess the political situation and to recommend actions which the United States should take to support the existing government, and, possibly, to strengthen the moderate elements within the government. (*Ibid.*, 724.00/3–3155)

[3] Despatch 421 from La Paz explained that the present unsettled situation arose primarily from the soaring cost of living and from a demand by the Central Obrera Boliviana, the Bolivian workers' confederation, for a 100 percent wage increase and a price freeze. The government, however, allowed only a 75 percent increase in wages and permitted some prices to rise. (*Ibid.*, 724.00(W)/3–2555)

[4] Walter Guevara Arze, Bolivian Minister of Foreign Affairs and Worship.

[5] On April 4 the National Advisory Council advised the Export-Import Bank that it did not object to the loan. (Minutes of the Meeting of April 1, 1955, and Action No. 774; Department of State, NAC Files: Lot 60 D 137)

[6] Telegram 179 from La Paz reported that if the Export-Import Bank decision were favorable, the Foreign Minister was hopeful that an announcement could be

Will naturally not fail report promptly all significant developments.

Drew

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made prior to the April 9 celebration of the anniversary of the MNR revolution. (*Ibid.*, Central Files, 824.10/3–2955)

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250. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, June 1, 1955.

SUBJECT

Proposed Joint Program for Bolivia

The Problem:

To develop a sounder economy in Bolivia under a political system of which the United States can approve, by assistance to the present Bolivian Government and by encouraging that Government to take actions and follow policies which we consider desirable.

Discussion:

The economy of Bolivia is seriously depressed, due to its monoproductive emphasis on minerals production and reduced foreign exchange earnings from exports of those minerals, principally tin. The United States has been assisting that country by loans, technical assistance, and grant aid. $38.2 million of Export-Import Bank loans are outstanding or pending disbursement; technical assistance for fiscal 1955 is budgeted at $2.2 million; and approved expenditures since the fall of 1953 when grant aid was begun to avoid economic collapse, starvation and political chaos and to assist in the economic development program total $25.5 million; $7.7 million in developmental supplies and equipment, the balance in agricultural commodities, principally surplus commodities from CCC stocks. The budget proposals for the Mutual Security Program for fiscal 1956 include $16 million in additional aid. The necessity for aid will lessen and cease as a sounder economy is developed, and it is in our interest that this take place as promptly as possible.

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[1] Source: Department of State, Central Files, 824.00/6–155. Confidential. Concurred in by Waugh, Topping, and Robert G. Sturgill of the Reports and Operations Staff of the Executive Secretariat.

The situation is complicated by the presence in Bolivia of a radical, nationalistic reform government, enjoying popular support, without effective opposition capable of taking power and maintaining order, made up of diverse elements including some extreme leftists but with moderately left of center elements in control. Originally tolerant of Communism, the regime has become increasingly anti-Communist. Originally distrustful of the United States, it now appears sincerely friendly. The regime states that it needs and welcomes private foreign capital, but there are elements within it which advocate degrees of state socialism and state capitalism which the United States would find objectionable.

It is felt that Bolivia should take certain steps at once which would promote the development of a sound economy based on private enterprise and improve the atmosphere for private foreign capital. Those steps have been incorporated in a proposed Joint Program for Immediate Action (Tab B),[2] in which both the United States and Bolivia would be expected to participate. The program requires the active cooperation of the Foreign Operations Administration and the expenditure of funds under the control of that Administration. It has been informally approved by action level officials of that Administration. It is planned to take it up with the highest officers of the Bolivian Government, with a view to acceptance in its entirety, promptly upon its approval by you and upon Mr. Stassen's authorization of the necessary actions by the FOA.

Recommendations:

1. That you approve the proposed Joint Program (Tab B)
2. That you sign the attached letter to Mr. Stassen (Tab B)[3]

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[2] The proposal was forwarded to the Embassy in Bolivia under cover of instruction A–135, June 10. (*Ibid.*, 825.00/6–1055) For the proposal, which was adopted verbatim, see Document 253.

[3] A handwritten notation on the source text by Topping reads: "Pearson says that act of signing letter means the program (copy attached to letter) was approved. JLT" The letter to Stassen is *infra.*

251. Letter From the Under Secretary of State (Hoover) to the Director of the Foreign Operations Administration (Stassen)[1]

Washington, June 9, 1955.

DEAR HAROLD: In view of conditions in Bolivia, with which you are familiar, this Department believes it is desirable to suggest to the Government of Bolivia a Joint Program for immediate action. This would be done with a view to developing a sounder economy there, under a political system which we could approve, by assistance to the present Bolivian Government and by encouraging that Government to take actions and follow policies which we consider desirable. The minimum initial steps in such a program are set forth in the attached outline.[2]

Several of these steps would require the disbursement of funds under the control of the Foreign Operations Administration. It is estimated that $150,000 should be allocated for the proposed survey of the mining industry and the proposed financial mission. The additional grant aid which we envisage during this fiscal year requires the allocation of $3,888,000 at market value of surplus agricultural commodities under the provisions of Title II of the Agricultural Trade Development and Assistance Act of 1954, and the allocation of $2,099,500 under the provisions of the Mutual Security Act of 1954. I understand that these proposals have been discussed informally with some of your officers, and that the necessary documentation has been prepared for your approval.

This Department believes that the proposed Joint Program should be implemented as rapidly as possible. It will be necessary for your approval of the allocation of the necessary commodities and funds to be received prior to discussion of the program with the Government of Bolivia, but implementation of the additional grants would be contingent upon Bolivian acceptance of the Program. Accordingly, it would be greatly appreciated if you could give early approval to the additional allocations.

Sincerely yours,

Herbert Hoover, Jr.[3]

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[1] Source: Department of State, Central Files, 824.00/6–955. Confidential.

[2] Not printed.

[3] Printed from a copy which bears this stamped signature.

252. Telegram From the Secretary of State to the Embassy in Bolivia[1]

Washington, June 14, 1955—7:47 p.m.

210. Because proposed joint program includes reference most major problems of mutual interest to Bolivian and US governments, Department believes your current discussions this program provide appropriate occasion refer to US understanding and hope that negotiations with former owners nationalized mines to fix amount compensation are continuing satisfactorily. In your discretion you may state that although this matter is not a part of joint program, US believes that substantial progress on compensation problem would improve climate for foreign investment in Bolivia, thereby contributing to overall program objectives.

Dulles

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[1] Source: Department of State, Central Files, 824.00/6–1455. Official Use Only. Drafted by Belton and initialed by Holland.

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253. Agreement for a Joint United States-Bolivian Program[1]

La Paz, June 22, 1955.

The following program has been agreed upon between the United States and Bolivia as a series of measures directed toward achieving common objectives. It is not intended to be all-embracing nor exclusive of other measures which may later be agreed upon.

1. Agreement on an engineering, geological and management survey of the mining industry by a qualified group of United States technicians, with the objective of determining what is needed to create in Bolivia a sound mining industry, economically profitable to the country, and attractive to private capital. The study should include the feasibility of establishing a tin smelter or beneficiating plant in Bolivia, and the desirability of a codification of Bolivian

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[1] Source: Department of State, Central Files, 824.00/6–2455. Official Use Only. The source text is a copy of the original which Ambassador Drew handed to President Paz on June 22. It was transmitted to the Department of State in despatch 583 from La Paz, June 24. The despatch indicates that "No changes in the text of the Program were suggested or agreed to and the President made it clear that Bolivia accepted the Program."

mining law. It would be expected that the recommendations of the survey would be followed up, with both countries making whatever contributions are within their power toward a stable and profitable mining operation.

2. Agreement on a commission of United States experts to suggest and oversee on a continuing basis a revision of Bolivian financial and fiscal structures, with a view to controlling inflation, establishing workable exchange rates, installing sound budgetary procedures, and utilizing Bolivian credit as efficiently as possible.

3. Agreement to maintain continuing contact with the Foreign Bondholders Protective Council concerning the defaulted bonded indebtedness, looking toward the establishment of terms and conditions leading to resumption of debt service.

4. Promulgation as promptly as possible of a Bolivian petroleum code which will afford a sound and attractive basis for private foreign oil companies to invest in Bolivia.

5. Negotiation of an agreement on investment guaranties.

6. Issuance of an official Bolivian statement of policies and treatment to be accorded private foreign capital, with special reference to legislation and regulations pertaining to the treatment of such capital.

7. Strengthening of the Bolivian Economic Planning Commission with adequate authority and competent personnel, with a view to formulating an integrated National Development Plan and coordinating the implementation of that plan.

8. Negotiation of a contract for tin concentrates for the Texas City smelter, for such additional amounts as may be determined to be necessary for the operation of the smelter through fiscal 1956, when appropriate Congressional action has been taken. Although the quantity involved may reach 9,000 tons, only an additional 3,000 tons can be contracted for at present.

9. Extension to Bolivia of approximately $6 million additional grant aid during fiscal 1955 consisting of surplus agricultural commodities, development items and funds for transportation, sufficient to cover Bolivian needs through December 31, 1955.

10. Continuation of integrated technical assistance, with particular emphasis on its usefulness for Bolivia's economic development.

11. Continuation and intensification of the Bolivian efforts to eradicate the influences of international Communism in that country.

254. Letter From the Director of the Foreign Operations Administration (Stassen) to the Under Secretary of State (Hoover)[1]

Washington, June 30, 1955.

DEAR MR. HOOVER: In reply to your letter of June 9, 1955,[2] in which you propose a Joint Program for immediate action to be presented to the Government of Bolivia, this agency shares with your Department the deep concern over the development of a more sound economy and a stable democratic political system for Bolivia. This agency concurs in your proposals for action.

In reply to specific points set forth in your letter, program determination has been made with respect to the $3,888,000 in market value of surplus agricultural commodities.

An additional allocation has already been made under the provisions of the Mutual Security Act of 1954 totalling $1,600,000 for development assistance for the purchase of equipment and supplies. These funds are now being obligated through the issuance of purchase authorizations.

The remainder of the funds, which amounts to $499,500 and which makes up the total of $2,099,500 allocation referred to in your letter, will be required to defray ocean freight charges on the surplus commodities mentioned above.

Part of this freight allocation will be approved prior to the end of fiscal year 1955 and the balance, which will apply to surplus commodities to be shipped during fiscal year 1956, will be provided for from fiscal year 1956 funds prior to scheduled shipment dates.

The $150,000 allocation for carrying out the survey of Bolivia's mining industry and financial and fiscal structures awaits approval in early fiscal year 1956. No delay is contemplated with respect to organizing Missions to accomplish this work and indications are that the International Cooperation Administration will implement this program as soon as notification is received that the Bolivian Government accepts the program.

Sincerely yours,

Harold E. Stassen

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[1] Source: Department of State, Central Files, 824.00/6–3055. Confidential

[2] Document 251.

255. Proposal for the Establishment of a Bolivian Stabilization Council[1]

La Paz, September 1, 1955.

1. It is suggested that the Bolivian Government establish a top level coordinating group to be known as the Bolivian Stabilization Council, to determine and control the enforcement of Bolivian financial and fiscal policies. It is believed that this body should have supreme authority in its field and that its Chairman should be responsible only to the President of the Republic. It is suggested that there be created a new position with Cabinet rank for the Bolivian who shall serve as Chairman of this Stabilization Council and that the balance of the Council membership be composed ex officio of the Ministers of Foreign Affairs, Finance and National Economy and the President of the Central Bank (and possibly the Presidents of the Corporación Minera and Banco Minero). Other Bolivian Government agencies should be represented on the Council on an ad hoc basis whenever subjects of special interest to such agencies are under consideration.

2. The Council should be an advisory body making its recommendations to the President.

3. Its function would be to coordinate and supervise Bolivian internal and external financial policies, including policies in the fields of foreign exchange, budget and taxation, internal credit (including credit to government entidades), external credit, customs duties and charges, price fixation, etc.

4. This function would be carried out in two ways:

a) through proposals on general policies made by the Council to the President on its own initiative, and
b) through examination of specific problems which would be referred to it for consideration by its constituent or other government agencies (however, the Council should have the right to consider any issue falling within its general field of interest regardless of such referral).

5. The constituent agencies should be required to submit to the Council, in advance of action or decision:

a) any significant questions or issues of a specific nature arising in their respective jurisdictions, and
b) any departures from established policies or procedures.

They should withhold action on such problems until the Council has considered them and made its recommendations.

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[1] Source: Department of State, Central Files, 824.10/9–655. Confidential. Transmitted to the Department in despatch 107 from La Paz, September 6.

6. The constituent agencies should keep the Council fully informed of their activities and all agencies and entidades should provide the Council with such information or data as the Council may deem necessary for the discharge of its responsibilities.

7. The Bolivian Government, in agreement with the United States Embassy, should nominate to the Council two American advisers and an American Executive Director, whose salaries would be paid by the United States. The advisers would not have the right to vote but would have the right to participate in the Council's discussions and to introduce for consideration of the Council proposals relating either to specific problems or general policies.

The Executive Director of the Council would be the senior member of the American Fiscal Mission and would serve as adviser to the Chairman. He would also have the responsibility of generally expediting the work of the Council, preparing agendas, providing (with the help of constituent agencies) such staff studies as may be feasible and acting as head of a small secretariat whose personnel would be provided by the Bolivian Government.

8. The Bolivian Government should appoint the two advisers to the Council as top level advisers to the Ministry of Finance and to the Ministry of National Economy, respectively.

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256. Memorandum of a Conversation, La Paz, September 5, 1955[1]

PARTICIPANTS

The Ambassador; E.A. Gilmore, Jr., Counselor of Embassy; Walter Guevara Arze, Bolivian Foreign Minister; Eduardo Mendieta Alvarez, Bolivian Minister of Finance

SUBJECT

U.S. Proposal for a Bolivian Stabilization Council

This meeting was arranged at our request to consider the establishment of a Bolivian Stabilization Council as a part of the Joint Program which had previously been agreed to. A memorandum[2] embodying the U.S. recommendations contained in Embassy despatch No. 21 of July 12, 1955,[3] as modified by Department's telegram No. 16 of August 4 [*3*], 1955,[4] was handed the Foreign Minister.

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[1] Source: Department of State, Central Files, 824.10/9–655. Official Use Only. Drafted by Gilmore. Transmitted to the Department in despatch 107 from La Paz, September 6.

[2] *Supra.*

After reading the memorandum with care, the Foreign Minister said that the proposed plan was more than he had expected in view of the earlier discussions regarding the Joint Program. He had thought that a commission to study the financial situation and submit recommendations was envisaged, but he noted that the present suggestion was for a continuous working body. He considered that Bolivia's present need was not for more studies of its financial difficulties. The situation was plain enough; Bolivia lacked sufficient dollars to finance its vital development needs plus its current consumption requirements. However, the suggestion that more government machinery be set up to control financial policy would have to be examined with care.

Concerning the proposed membership, he questioned the need for having the Banco Minero represented. He believed that six or possibly seven voting members would be desirable, i.e., the chairman, the Ministers of Foreign Affairs, Finance, and National Economy, the Presidents of the Central Bank and the Corporación Minera, and possibly the President of the Corporación de Fomento. At this point the Minister of Finance disagreed. He felt that the Council's main task would be to fix priorities among various developments and other expenditures, and that it would hamper its work to have the representatives of the spending agencies sitting on the Council. He inquired whether the Foreign Minister wanted to include the President of YPFB as well. Without answering this directly the Foreign Minister said it seemed to him that the Council would need to include both the spending and the earning agencies (e.g. Corporación Minera) if it was to function effectively. The Ambassador pointed out that our proposal provided that any agency would be represented on an ad hoc basis when matters in which it had a special concern were under consideration. The Foreign Minister also commented in passing that the Ministry of Mines and the National Planning Commission would probably want to be represented. He did not express an opinion as to whether this would be desirable.

Speaking more generally, the Foreign Minister said that from the internal political standpoint, the establishment of such a Council would be subject to attack. He anticipated a bad time from the

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[3] Despatch 21 transmitted a memorandum that suggested the establishment of a central coordinating body within the Bolivian Government to act as a permanent stabilization council. (Department of State, Central Files, 824.10/7–1255)

[4] Telegram 16 suggested that the council have cabinet rank, consist of the existing cabinet ministers and heads of pertinent agencies, and include a non-voting U.S. adviser. (*Ibid.*)

Communists. The Ambassador reminded him that when the Joint Program was under consideration Juan Lechin had been strong in his support of it. The Foreign Minister admitted this, but said that possible left-wing attack would be a factor to take into account.

He inquired what role the UN Adviser, Mr. Arthur Karasz,[5] would have in the proposed council. Both he and the Finance Minister praised Mr. Karasz warmly, and said that his knowledge and experience should be utilized. The Ambassador said that we had made no proposal for an adviser to the President of the Central Bank with the thought that Mr. Karasz would continue in this capacity and that he would, therefore, automatically be drawn into the operations of the Council, if the President of the Central Bank so desired.

Both the Foreign Minister and Finance Minister saw some similarity between the proposed council and the Kemmerer Mission of the twenties.[6] The Finance Minister digressed for some minutes to criticize the restrictive nature of the banking legislation which had been adopted on the recommendation of the latter.

Both the Finance Minister and Foreign Minister expressed concern over the possibility of finding a qualified Bolivian to head the Council. The Finance Minister, in particular, stressed that the chairman should be a practical operator, rather than a theorist. The Finance Minister said merely that they would see whether a properly qualified chairman could be found.

At the conclusion of the meeting the Foreign Minister explained that consideration of the new petroleum code would have top priority during the next two weeks, and that it would consequently be impossible to give a definite answer on the stabilization council proposal until approximately the end of the month.

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[5] Arthur Karasz, U.N. Financial Adviser to the Bolivian Government.

[6] A series of missions led by Professor Edwin W. Kemmerer of Princeton University, which resulted in the establishment of central banks in Colombia, Chile, Ecuador, Peru, and Bolivia (in 1928), that were to enforce deflation and maintain the external value of currency. See Edwin Walter Kemmerer, *Informe Kemmerer y Proyectos de Ley para la Reorganización del Banco de la Nación Boliviana, y Otros Proyectos* (La Paz, Finance Ministry, 1927).

257. Letter From the Ambassador in Bolivia (Drew) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

La Paz, November 8, 1955.

DEAR HENRY: I assume that John Topping has kept you informed of the attitude of UNTAA toward our proposal to send a Fiscal Mission to Bolivia.

I was taken very much by surprise to learn on November 3 that Martinez Cabañas[2] and Karasz were in town. There has been some reference to the theory that Martinez Cabañas came here following attendance at a meeting on administrative affairs in Montevideo, but I am convinced that his trip to South America was primarily in connection with the proposed Fiscal Mission to Bolivia. In any case, at the request of Señor Oropeza Castillo[3] for a meeting, I invited him, Martinez Cabañas and Karasz to come to the Embassy that same evening for a talk.

I saw Señor Guevara on the afternoon of November 4, primarily in connection with the plans for your trip. He mentioned that the note accepting our proposal on the Fiscal Mission was ready but that he had held it up when he learned that Martinez Cabañas was coming to La Paz to discuss the subject. He saw Martinez Cabañas later in the day but I have not seen Guevara since that time and Martinez Cabañas did not see fit to acquaint me with the nature of the conversation when I saw him again on November 5. Future events may shed some light on it.

I enclose two memoranda prepared by Mr. Gilmore summarizing the conversations which were held with Martinez Cabañas, Oropeza and Karasz on November 3 and 5.[4]

There is no doubt in my mind that Martinez Cabañas came to Bolivia with one purpose in mind, namely, to block the Fiscal Mission if possible and failing that to convert the Stabilization Council into a UN-dominated instrumentality. In our first conversation I was naive enough to proceed on the assumption that all of us present were imbued with honest good will. Before the conversation was over, however, I realized that I was dealing with a clever individual who carried a sharp axe behind his back. In the second conversation, particularly toward the end, the cloven hoof really emerged into full view. It ended on a superficially polite note but I think neither Martinez Cabañas nor I was under any delusions about just where we stood. I consider the attitude of UNTAA in this whole affair to have been improper and its action in sending him here to be opposed to our best interests. I think it is sufficient grounds for us to re-evaluate our whole attitude toward that organization.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Bolivia. Official Use Only.

[2] Gustavo Martinez Cabañas, Deputy Director of the U.N. Technical Assistance Board.

[3] Alejandro Oropeza Castillo, Resident Representative of the U.N. Technical Assistance Administration.

[4] Neither printed.

Señor Guevara, who left with the President for the interior on the morning of November 5, is only due back today and consequently I do not know how successful Martinez Cabañas has been in his wrecking tactics. I am therefore writing this in ignorance of whether the note to us will be sent or not. In any event, however, I greatly fear that Martinez Cabañas has at least been successful in poisoning the well. There is no doubt in my mind that he has planted the seeds of suspicion in the minds of the Bolivians that we are attempting to set up an American-dominated super-ministry to run Bolivia's finances. Whether Guevara sends the note accepting the Fiscal Mission or not, I fear that serious harm has been done by Martinez Cabañas to this whole project.

I very much want to discuss this problem with you. I am sure you can do a lot to help restore Bolivia's confidence in the purity of our intentions with respect to her finances.

Incidentally, this letter has been read and concurred in by Oscar Powell[5] and Gene Gilmore.[6]

Sincerely,

Jerry

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[5] Oscar M. Powell, Director of Technical Cooperation, Institute of Inter-American Affairs.

[6] A handwritten notation on the source text by Topping to Pearson indicates that the Department replied in telegram 90, November 14. Telegram 90 recommended that Karasz be designated as an adviser to the proposed fiscal stabilization council, reiterated U.S. determination to collaborate with the U.N. technical mission, and stated, "In view our primary responsibility Bolivia we would insist that in unlikely event conflict between suggestions US and UN advisors our views prevail. This seems so obvious as not to require further clarification. Provided Bolivians fully appreciate it, as they apparently do, nature recent actions UN representatives in Bolivia are of little significance." (Department of State, Central Files, 340.3124/11–1055)

258. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, November 17, 1955.

SUBJECT

Proposed $10 million dollar Export-Import Bank loan financing oil pipeline in Bolivia

Discussion:

The Bolivian Government has approached the Export-Import Bank and the Department of State on a loan of approximately $10 million dollars to construct an oil pipeline to extend from producing areas in the country to Arica on the Pacific coast. I have told the Bolivian Ambassador that it is the firm policy of our Government not to make official loans in the petroleum industry, and that I see no hope for the application. On the contrary, Mr. Waugh at the Export-Import Bank advises that he is prepared to give consideration to the loan, and that he is going to Bolivia with "an open mind."

When he and I reach Bolivia on November 25,[2] we are going to be subjected to rather heavy pressure from the Bolivian Government on this loan. Obviously, we should tell the same story. It is my understanding that the firm policy of the United States Government is not to make official loans in the petroleum industry because we consider that this is an industry which has access to private sources of capital.

I am advised that private enterprise would be willing to finance this line under pledge of repayment out of oil transported.

As you know, the Mexican, Argentine and, perhaps, Brazilian Governments would like pipeline loans.

Recommendation

That, urgently you arrive at a policy decision in consultation with appropriate officials of our Government as regards the position that Sam Waugh and I should take when we arrive in Bolivia and this proposal is urged upon us. That policy decision should be cabled, if possible, to us at one of the missions that we visit before our arrival in Bolivia, and as quickly as practical.[3]

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[1] Source: Department of State, Central Files, 824.2553/11–1755. Confidential. Prochnow initialed his concurrence and attached a supplementary memorandum, *infra.*

[2] This was part of a larger trip to five Latin American nations, November 17–December 3, 1955.

[3] Hoover initialed his approval of the recommendation.

259. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the Under Secretary of State (Hoover)[1]

Washington, November 19, 1955.

SUBJECT

Export-Import Bank Loan Financing of Oil Pipe Line in Bolivia

Discussion

This memorandum supplements Mr. Holland's memorandum of November 17 on the same subject. Since Mr. Holland had drafted his memorandum before he left, ARA officers with whom the problem has been discussed thought it advisable that we forward a separate memorandum to you on the subject.

The problem of oil loans has always been a delicate one for the Eximbank. There is no need for such loans in countries where the oil industry is operating on a private competitive basis. It is believed that this would be true in the present case under these conditions if the project is economic. It is only where governments are in the oil business that requests for U.S. public loans have arisen. This applies both to loans for large projects such as the current one or for exporter credits needed in connection with sales of oil field supplies and equipment. In addition to Bolivia, foreign governments are in the oil business in Argentina, Chile, Brazil, Mexico, France, Italy, Yugoslavia, and China. The need of such countries for oil financing could easily be almost insatiable, as indicated by a PEMEX request several years ago for $473 million. Once a policy were embarked upon of making loans to such entities, it is difficult to see where the line could be drawn. Reports indicate, for example, that PEMEX is about to make another effort to secure a loan and that the Argentine Government may be thinking along the same lines.

Other questions also arise regarding such loans. There is little evidence that any government has ever been really successful in running its oil industry. If the Government should embark upon a policy of making such loans, it would be vulnerable to the charge that it was supporting government rather than private enterprise. In some countries which have sought but not received such loans, the loans would have gone to foreign government oil companies in direct competition with private American oil companies. Most governments are very nationalistic with regard to their oil resources and some governments have actually nationalized their industries. If the U.S. Government should show a willingness to support such government operations on a large scale, there would be greater danger of nationalization of the oil industry in various countries of the world, both to the detriment of the economies of the countries concerned and to our own national interest.

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[1] Source: Department of State, Central Files, 824.2553/11–1755. Confidential. Drafted by Prochnow and Robert H.S. Eakens of the Fuels Divisions, Office of International Trade and Resources. Concurred in by Robinson.

As a result of the foregoing and other factors, it has never been the practice of the Eximbank to make loans for petroleum projects. Two such loans were made during World War II in exceptional circumstances—one a $10,000,000 loan to PEMEX for an aviation gasoline plant and some $8,500,000 to Bolivia for refinery and pipe line construction. No such loans have been made since.

The Eximbank has always felt it desirable to have clearly-defined policy in this field and at the request of the Eximbank the International Petroleum Policy Committee, consisting of representatives of State, Interior, Defense, Commerce and FOA, endeavored to develop such a statement in 1951–52. A copy of the policy statement developed by that group is attached as Tab B.[2] While the statement was never formally transmitted to the Eximbank it was generally agreed to by all of the members of the Committee and by most of the agencies which were represented.

The essence of the statement is that there is a strong presumption against U.S. public loans for petroleum projects but that relatively small loans are not ruled out under exceptional circumstances.

Recommendation:

It is recommended that Bolivia be informed as follows: Oil is a field in which private capital is normally available in adequate amounts for economic projects where favorable conditions have been established for such investment. It is understood that private capital may be available for the pipe line project in question. It is contrary to Eximbank policy to make loans for projects when private capital is available on reasonable terms. In these circumstances there are very strong presumptions insofar as the United States Government is concerned against the lending of U.S. public funds for petroleum projects. Bolivia should therefore endeavor to arrange private financing for the project.[3]

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[2] The attachment, "U.S. Government Policy with Respect to Public Loans for Foreign Petroleum Projects," May 14, 1952, is not printed.

[3] Hoover initialed his approval of this recommendation.

260. Memorandum of Conversations Between the Secretary General of the Confederation of Bolivian Workers (Juan Lechín) and the Labor Adviser of the Office of Regional American Affairs (Fishburn), Washington, December 6, 7, and 8, 1955[1]

SUBJECT

Bolivia

Mr. Lechin and I spoke together several times during the course of the 3 days, including two hours over breakfast on December 7. Topics covered included the following:

(1) Mr. Lechin's first preoccupation is, naturally, the current economic difficulty of Bolivia. This he blames squarely and directly upon the United States for reducing the price of tin just after the MNR administration came into power. He alleges that this was done because of our animosity toward the MNR. Although I tried to tell him that tin prices are determined by world conditions of supply and demand, he replied that the world price of tin has never been below our contract price and he is convinced that for this commodity we set the price. My attempts to combat this thinking were apparently futile.

(2) Mr. Lechin takes the initiative in giving the U.S. government credit for maintaining and keeping the MNR administration in power, with the grant aid which we have given it. He apparently sees no inconsistency between this position and the evaluation of our tin policy (1).

(3) Mr. Lechin argued that the United States should pay more for the raw materials of other nations than it does. I asked him at what point the United States Government or private purchasers should stop in price offers if they once depart from world market prices, to which he gave no answer. On this specific point he stated that we should have paid much more for Bolivian tin and rubber during World War II. I replied that prices were controlled in the United States for domestic producers, that the Bolivian producers obtained at least as much or more than prewar prices for all goods sold in this country and that prices of consumer goods were controlled in this country and for export. His response was that the only time that raw material producers can make good profits is during a war, that the United States should take this into account and pay much more. He said that, for example, instead of paying 30¢ per pound for rubber when the previous price had been 25¢, that

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[1] Source: Department of State, Central Files, 724.00/12–855. Confidential. Drafted by Fishburn.

we should have paid from $1.20 to $1.50. He added that whereas the Government of Bolivia at that time had indicated to the Bolivians that it had been very smart in getting 30¢ when the price was only 25¢, that it had been really stupid. We were the smart ones because the price might have risen to more than $1.00 per pound so that in getting it for 30¢ we paid less than we should have. I replied that in effect he was asking us, at a time when we controlled prices paid our own producers and were expending our lives fighting the Nazis, to pay the Bolivians more in order that they might enjoy greater profits while we waged war. While he resented this way of putting the matter, he made no substantive response. In this connection we had already agreed that if prices of tin had been increased the benefits would not have gone to the Bolivian workers but would have increased the profits of the three tin families, which he had criticized as being excessive.

(4) I mentioned to him our labor leader exchange program, indicated that it seemed to me to be of some value and stated that I would like to have his judgment of it. He replied that their very cooperation in selecting the individuals to come here indicated their approval of the program. He replied that they would have come to be more careful in selecting the individuals since some of them had not properly utilized the favor and had been spoiled by coming here and enjoying the relatively high compensation while in the United States. However, he indicated quickly that we should not reduce our per diem. I asked if he thought the program should be continued and, if so, how many labor leaders he thought we should be bringing here. He suggested that we should bring here approximately one group of 6 persons every 2 months.

(5) Mr. Lechin indicated that the Bolivian Indians are now being attracted into the economic and social life of the nation. He stated that they are leaving their rural areas and entering the small villages and larger towns. This, of course, increases the national demand for such items as sugar and wheat which are imported and has further aggravated the inflation he declared. I stated that it was clearly desirable to raise the living standards of the Bolivian Indians and that in order to do this it is necessary to bring them into the Bolivian economy. However, I added that at the present time it is the United States that is subsidizing this additional food which is required for them by virtue of their flowing to the cities and asked him to what degree and for how long he thought the United States should directly subsidize the permanent improvement in living standards of other nations. I emphasized the desirability of raising the living standards in the long run and of helping the Bolivian Government in doing so and then repeated the basic question regarding the degree to which this Government should subsidize this

by direct financial aid. He said "That is a good question, but let me respond with another." The United States has been exploiting Bolivia for the past [illegible] years. Now do you not think it is time for you to compensate us for [illegible] exploitation? I asked how we had been exploiting Bolivia for 50 years. He replied, through purchasing tin as a raw material at low prices and selling manufactured goods to us at high prices. I replied that the United States had not bought tin directly from Bolivia until World War II but rather that the tin had been sold to Britain. He replied that, of course, you (we) buy the raw material from Britain and put it into manufactured products and then sell them to us at high prices. This led to my discussing with him the relationship between prices of raw materials and manufactured goods. I pointed out that raw material producers in this country have the same problems and sometimes the same feelings as raw material producers in other countries. This discussion was not conclusive and probably its only value was to show his state of mind on this point.

(6) Mr. Lechin indicated that his position had been anti-imperialist and anti-United States before the U.S. Government granted its economic aid to Bolivia and he emphasized the degree to which this aid has saved the MNR administration. I asked him what would happen if our aid should cease; would he become anti-American again? He replied that this would depend upon the reason for the cessation. If we had a good overwhelming reason, obviously they would accept it graciously. If not, ————; he did not clarify.

(7) Mr. Lechin voluntarily suggested that the MNR administration has reduced the influence of the Communists within the COB from approximately 50%, which it originally had, to a level of 5% today. Within these figures he included both the Communists and the Trotskyists.

(8) We discussed tariffs briefly and he agreed that an adequate solution for Bolivia's basic economic condition includes reductions in tariffs, which he stated he had already advocated.

(9) At various points he emphasized the fact that the Bolivian people are "more democratic," "more politically minded," etc., than any other people. As "proof" he stated that they first read the political section of the newspaper rather than the sports and comics and that they know whom to elect as their friends when they have the opportunity. To further illustrate his point, he stated that the American workers in contrast read the sports and comic sections first and elected President Eisenhower rather than Stevenson. My response to this was that since the American workers long ago achieved the democracy for which the Bolivians are still striving, they can pay attention to sports and comic sections rather than worry constantly about democracy.

(10) I asked Mr. Lechin why he is so interested in the workers' militia, rather than a regular army. He responded that the workers overthrew the previous regime with their rifles, that they are still intent upon preserving their gains, that they are keeping their rifles well oiled and hidden away and that it would not be possible to take them from them. He also responded that Bolivia had been controlled by a reactionary army throughout most of its history, implying that the army is necessarily anti-worker. In this connection, he added that the United States has learned how to keep an army in a non-political role but that Latin America has not.

(11) He referred at one point to the subhuman living conditions of the Bolivian miners. I asked if he meant the miners in small mines or in all of them. He replied that he meant all miners. I stated that I had visited the Siglo XX tin mine and that while I found living conditions poor, I did not feel that they could be classified as subhuman. He replied that the better living conditions I had seen applied to only 3 or 4,000 out of many more, and that miners could work only 2 or 3 years in the tin mines without injury to their health.

(12) I referred at one point to the transition of the MNR from an anti-capitalist Party before achieving power, and to its present position of accepting some private investment. He replied that neither he nor the MNR had ever been anti-capitalist, and that if I could quote him as ever having been, he would retire from political life. He also emphasized the desire of the Bolivian Government to attract private capital into Bolivia, mentioning McCarthy's investment[2] in the oil industry. I indicated that it did not seem likely to me that the Bolivian Government's policies thus far were such as to attract the private capital of the more responsible character and on the scale needed. He responded that the Bolivian Government did not regard Mr. McCarthy as an adventurer. He added that it was up to the Department of State to help attract private capital to Bolivia. I responded that investors will weigh the risk factor for themselves and that I did not think it likely that the Department would have much success in persuading individuals to invest in other countries. I added that sometimes investors come to us for further information, in which case they might be discouraged if conditions are poor. However, the positive measures needed to induce capital investments are up to the local government.

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[2] Reference is to the oil concessions in Southern Bolivia, which the Bolivian Government granted to Glen McCarthy, a U.S. citizen of Houston, Texas; documentation pertaining to the McCarthy concession is *ibid.*, 811.05124.

(13) In our first conversation, Mr. Lechin indicated to me that he had talked with Mr. Reuther[3] and Mr. Benedict[4] of the CIO. I asked if he intended to attend the AFL–CIO Convention and he said he had made no arrangements. [Following this conversation, I informed Mr. Romualdi, Latin American Representative of the AFL, of my conversation with Mr. Lechin. In response to Mr. Romualdi's question, I suggested that I believed that Mr. Lechin would like to attend the Convention and that I thought the invitation would be useful. Mr. Romualdi then informed me that he would arrange to have Mr. Lechin attend the Convention, which he did.][5] Immediately following his attendance at the Thursday morning session of the combined AFL–CIO Convention, I spoke to Lechin as I accidentally encountered him outside the convention hall. Mr. Lechin, I learned, had been introduced to the Convention and I believe he was rather pleased.

(14) On Wednesday morning Mr. Lechin voluntarily referred to a newspaper headline which had come out on the previous afternoon (Tuesday) on the murder of a Negro leader in Texas and remarked what a shame it was. I indicated that I had not had a chance to read the account and that until the facts were known would be reluctant to say anything. In our Thursday meeting following his attendance at the Convention, I stated that more recent accounts indicated that the cause of the Negro's murder had not yet been determined. I added that present accounts indicated that he had had personal and family difficulties and that, of course, I strongly hoped that the murder had not taken place on account of race. He agreed.

(15) Mr. Lechin stated that he had entered government service poor, and that he would leave it still poorer.

(16) I expressed some skepticism concerning miner control over the tin industry, indicating that worker control through cooperatives in the United States had not worked well, and that naturalization [*nationalization*] of the mines in Britain and petroleum in Mexico had not worked well. He replied that worker control over Bolivian tin mines is essential, that it has already led to greater self-sacrifice by Bolivian miners and that the Bolivian miners understand the basic problems. I referred to the fact that President Paz had to go to the mines to ask the miners to resume work sometime ago, which he seemed not to remember.

(17) I stated that I presumed that Mr. Lechin had received our offer of a travel grant in this country if he would like to avail

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[3] Walter Reuther, President of the Congress of Industrial Organizations Division of the American Federation of Labor.

[4] Daniel Benedict, Director of Education of the Inter-American Regional Organization of Workers.

[5] Brackets in the source text.

himself of this opportunity. He responded that he did not have time for this as he must return to Bolivia.

(18) Our final parting ended with my expressing hope that the mutual cooperation of the two governments would resolve the basic economic problems of Bolivia. He referred to the fact that this was more our problem than theirs, with which I disagreed. However, it was apparent that he maintained his original position.

Comments:

Our conversations were cool but calm on the first two occasions. However, he openly interpreted my questions as indicating a basically unfriendly attitude, to which I simply replied that in view of our short time together I had to ask difficult questions, which I would rather not do, in order to understand the situation. Following his attendance at the Convention he seemed more relaxed. While we did not part on a warm basis we were at least smiling.

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261. Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, December 12, 1955.

SUBJECT

Notes on Problems in Countries Visited

Bolivia

1. *Arica Pipeline*

The project to which the Government attaches highest priority at this time is the proposed pipeline to carry petroleum for export to Arica. We agreed that the Embassy would participate in a study covering the cost estimates of the line, the economics of its operation and such alternative methods of financing as are under consideration. We pointed out clearly to the Bolivians that they could not expect Export-Import financing, for that would violate the established policy of the United States Government.

2. *Possible Export-Import Financing*—The Government is interested in financing of power plants. It is also intensely interested in the

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[1] Source: Department of State, Central Files, 110.15–HO/12–1255. Confidential.

construction of two highways establishing connection between the Beni agricultural and ranching area in the northern part of the country and the Altiplano.

There are two private financing applications pending. One is for a Grace[2] Cement Mill and the other is for the lead operation identified as Metabol.

3. *Mining Mission*—Representatives of United States engineering firm[3] which is to review the mining industry in Bolivia should be arriving there about this time.

4. *Financial Mission*—We agreed with the Bolivians that Karasz of the United Nations would have the role of adviser to the Stabilization Council. This seemed to eliminate the dispute as to the role of the United Nations. It is very important that we find a capable man to head up the United States advisers to the Council.

5. *Brazilian Oil Concessions*—The President of Bolivia earnestly asked our help in persuading the Brazilians to terminate the agreement under which they have the right to participate in the development for petroleum production of a large area in eastern Bolivia. He argued that the Brazilians are unable to develop their own territories and clearly are unable to engage in activities abroad.

6. *ICA Mission Chief*—Mr. Powell will be leaving Bolivia in the Spring. This is the largest ICA program in Latin America, and it is imperative that a capable man be found as a replacement.

7. *Presidential Succession*—The President outlined his views regarding the forthcoming elections. They are reported in a separate memorandum.

8. *Termination of Tin Purchases*—We told the Bolivians that they must prepare for the termination by the United States of operations of the Texas City Tin Smelter. They seemed to take the news philosophically. We must give thought to preparation of public opinion there for the disclosure of this decision, if that proves to be the course that the United States follows.

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[2] W.R. Grace and Company.

[3] Ford, Bacon and Davis, Inc.

262. Despatch From the Ambassador in Bolivia (Drew) to the Department of State[1]

No. 349 *La Paz, January 27, 1956.*

SUBJECT

Bolivia; Conversation with Hernan Siles Zuazo, presumptive President of

Opposed as I am to lengthy despatches, I fear that this will be an exception to my rule, as it summarizes my first conversation with the Vice President of Bolivia, Señor Hernan Siles Zuazo, since his nomination as the candidate of the MNR Party for the Presidency of the Republic and, barring unforeseen developments or acts of God, the presumptive President of Bolivia beginning August 6 of this year.

Setting

[Here follows discussion of Bolivian political history.]

Presidential Succession

Siles said that he had recently done everything in his power to prevail on Paz Estenssoro to seek a new term in office. He had suggested that the President go abroad now to regain his health, leaving Siles as Acting President or that as soon as Paz was reelected he leave for six months or a year while Siles held down the Presidency awaiting his return. The President had objected on the grounds that it would not be sufficient time to regain his health. Regretfully, said the Vice President, he had finally consented to be the Party candidate. He said that, nevertheless, during the course of the recent Convention of the MNR Party in La Paz, he had five times in writing withdrawn as a candidate.

Party Politics

The Vice President repeatedly said that he was not going to occupy the Presidential chair but rather an "electric chair". He repeatedly expressed doubts that he would ever take office on August 6. . . . Señor Siles' principal preoccupation is with the inflationary processes and the declining rate of the boliviano, which he expects to reach 6000 to one dollar by next May. He said that he feared that this would accentuate inflation, inspire Communist and radical elements to redouble efforts to take power and cause pressure to come upon the present regime to go left.

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[1] Source: Department of State, Central Files, 724.12/1–2756. Confidential.

Foreign Assistance

The Vice President said that economic aid from Europe was a myth, help from Bolivia's neighboring countries an impossibility, and assistance from the Soviet Union even more remote. He said that if foreign assistance, obviously from the United States, was not forthcoming, the inflationary process would bring about the downfall of the present liberal, democratic regime inevitably to be followed by a Communist Government which within a matter of weeks or months would in turn be overthrown by a combination of a rightist and military forces which would destroy all the democratic progress made by the MNR and which would have to turn without fail to the United States for a more expensive aid program than the current one. He mentioned the Castillo Armas Government in Guatemala as the type of regime he feared.

Domestic Politics

Señor Siles said that he was going to make a speech on February 2 which would constitute a statement of his platform for the future. In fact, he read to us lengthy excerpts from his proposed speech which were not particularly impressive as they dealt mainly with agricultural production, health conditions, the birth rate, etc.

He admitted that Juan Lechin and the COB would control a majority of the members of the forthcoming Congress as they had the recent Convention. He said that he nevertheless was not going to be a puppet of Lechin and the COB. He intended to write to Ñuflo Chávez, the nominee for the Vice Presidency,[2] and Lechin and lay down his terms for the future. If they were not accepted, he would reject the nomination before his February 2 speech.

Foreign Policy

The Vice President could not have been more emphatic and convincing in his repeated affirmations of friendship for the United States and his intention to continue the policy of the present Administration of close economic and political collaboration with the United States. He assured us that he would carry out the letter and the spirit of the new Petroleum Code and the recently adopted regulations, would continue the Investment Guaranty Program, would support and encourage the present Mining Mission, etc. He expressed his highest regard for the Technical Assistance Program and his resolve to support and cooperate with it.

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[2] He was then Minister of Rural Affairs.

External Debt

In response to a question by Mr. Powell, the Vice President said that he was anxious to restore Bolivia's international credit by finding some device, such as a loan on the Mathilde Mine or through payment of profits from the coffee industry, to make at least token payments on the foreign debt. He realizes that it was a black mark for Bolivia and precluded any possible aid from the World Bank or the International Monetary Fund.

Opposition

The Vice President blamed most of the corruption by Party members to the lack of an Opposition in the present Government. He stated emphatically that he intended to encourage an Opposition in Congress, to maintain a free press and to refrain from imprisoning political opponents.

Fiscal Mission

When I suggested that the establishment of the Stabilization Council with American technicians in the role of advisers might do a lot to check inflation, the Vice President expressed his concurrence in the proposed Fiscal Mission, but warned that it would become a weapon of the Opposition, particularly Communists, to attack the United States on grounds that it was intervening in the internal affairs of Bolivia. Mr. Powell and I made it plain that we did not take too much stock in this position.

Personnel

Señor Siles spoke glowingly of Barrau the new Foreign Minister and mentioned Señor Guisbert, a prominent local businessman, as one of his principal advisers. He attempted a defense of members of his Planning Board who are at the very least, ex-Communists, Messrs. Dujovne, Rangel and Fossati. I fear Mr. Powell and I looked unimpressed.

On various occasions throughout the course of our two-hour conversation, Mr. Powell and I emphasized as strongly as we could the necessity for creating a favorable climate for foreign investments. We also elicited from Siles assurances that he was in favor of free enterprise and opposed in principle to "statism". We pointed out that it was the spirit rather than the letter of laws which influenced final decision of foreign companies about investments abroad. Mr. Powell made a strong plea for proper treatment of industry. Señor Siles expressed complete concurrence with our position. We pointed out that drastic public statements along Marxist-Socialist lines by people like Lechin could be turned against Bolivia's interests even to the point of reducing or stopping our aid. When I mentioned to the Vice President that I expected soon to invite Lechin for a luncheon meeting, he endorsed the idea and said he would like to be present.

Conclusion

Nothing the Vice President said was out of character as I know him. He reaffirmed my opinion of him as a sincere, well-meaning, if somewhat naive, idealist. I am satisfied that he is quite sincere in his affirmations of friendship for the United States and his intention to continue the policies of the Paz Administration, in particular with regard to close collaboration with the United States. As for his declarations of intention to take a firm and independent stand toward Lechin and the COB, I fear that he will find himself playing the role of a David against a Goliath. However I confess I had not been aware of the mystique in his character which prompted him to make repeated references to the Presidency as being an electric chair, to express doubts that he would ever take office if inflation were not checked, to the statement that he would be strung up from a lamp post like Villarroel or the possibility that if all else failed that he would emulate Vargas and put a bullet in his brain.

When the Vice President repeatedly stated that he was "alone against the wall", I tried to encourage him by assurances of moral support. While the Vice President seemed self-assured and confident, the actual words he used were startling, to say the least.

Mr. Powell and I believe that the Vice President is a man imbued with genuinely friendly sentiments toward the United States and with honest intentions to carry on the work of his prospective predecessor. We are confident that if he does take office, we will have in Hernan Siles Zuazo a well-meaning, genuine friend who will look to us for moral and material aid and who will seek and be guided by any reasonable recommendations we may have to make in such fields as foreign investments, technical assistance, etc., wherein we have a legitimate concern.

I believe that the Vice President is and will try to continue to be a genuine Bolivian patriot who will reject any form of Marxist-Communist ideology and will endeavor to do his best for Bolivia.

Gerald A. Drew

263. Memorandum From the Officer in Charge of West Coast Affairs (Siracusa) to the Director of the Office of South American Affairs (Bernbaum)[1]

Washington, February 2, 1956.

SUBJECT

Suggestion for Diversifying Bolivian Policy

In connection with the suggestion that periodic congressional briefings on the Bolivian situation and on our policy toward that country be arranged, the following recommendation is submitted as a means of diversifying our policy so that we do not rely entirely on the hope that something beneficial will develop out of our support for the MNR.

Recommendation:

That we adopt and put into effect a line of action with respect to the Bolivian Army for the deliberate purpose of seeing the formal military so strengthened that there would be some responsible body from which leadership might emerge should political chaos come to Bolivia through a collapse of or an unfavorable reorientation of the MNR regime. This would provide a form of secondary insurance for achievement of our objectives in Bolivia, especially should hopes with respect to our present policies not materialize, and should the situation deteriorate against our interests.

Concrete types of action which might go into the execution of such a policy would be:

1. Strengthening our Military Mission activities.
2. Increasing programs for training of Bolivian officers in the United States.
3. Considering grant military aid for Bolivia in order to provide a rejuvenating military with the strength required for internal security.
4. Devising effective means for our civilian and military officials to influence MNR leadership, particularly those in responsible positions of government, to rely on the military and to weaken the civilian militia.
5. Devise means to enhance the prestige of the Bolivian military such as: Decorating high officials where possible; scheduling visits to Bolivia of high ranking U.S. military figures; inviting Bolivian Military figures to the U.S. as official visitors, etc.

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[1] Source: Department of State, Central Files, 611.24.2–256. Secret. Also addressed to Belton. A handwritten notation by Bernbaum at the top of the source text reads: "Siracusa—Let's include this in an overall discussion of the problem."

Discussion:

It is my understanding that our policy toward Bolivia is based roughly on the following:

We are aiding Bolivia in an effort to prevent economic collapse. At the same time we are trying to encourage the MNR regime to adopt policies and programs which will eventually enable Bolivia to stand on its own feet without outside aid. We hope in the process that the moderate elements in the MNR will gain strength and that it will increasingly adopt attitudes and practices consistent with U.S. ideals and aims, political, social and economic. Principal reasons for our doing this are the fact that the MNR, with all its recognized defects, is yet the only organization which now appears capable of attracting and holding substantial following among the people and it is devoted to reforms, at least some of which are long overdue in Bolivia. Our course has been adopted in part, also, because of the belief that should the MNR collapse, a period of political vacuum and chaos would inevitably occur in Bolivia which would be detrimental to our interests there and in the hemisphere. In summary, it is our hope that while we hold the MNR up, and help it eventually to put Bolivia back on its feet, we will also be able to influence it in a healthy way.

Even though it involves calculated risks, this policy is probably the best that could have been devised under prevailing conditions. And, so far, it has appeared to work well enough. A government which was leftist and anti-U.S. at its inception has, probably in great measure due to our aid, become less so and has, in fact, cooperated with us to an encouraging degree. This has not been without cost to its own situation, however, and as it has become more moderate, cleavages have been intensified between its moderate and middle elements and its own far left wing. At the moment, too, the latter appear to be emerging as the strongest faction. While it is possible that the next government will, like the present one, move toward us even though the initial outlook may appear bleak, the situation will not be the same and we cannot count on it. Therefore, even through it now appears that Siles, a moderate, will be President, the Lechín group will probably dominate the MNR, the Congress and possibly the government. This could produce problems serious enough to weaken the MNR regime, even disastrously, or could so alter its character that U.S. policy would have to be reappraised. Thus, we could be faced with a situation wherein achievement of our objectives, in whole or in part, could gradually or suddenly be precluded.

What would we do, for example, were the MNR to collapse through internal dissension or split factionally to such an extent as to virtually become inoperative? What would be the prospect in terms of our interests should the leftists in the MNR gain control and act in such a way as to cause us to withdraw our aid? What if, in this case, aid from unfriendly quarters should be sought and/or obtained? I don't think our present policy contains answers to these questions even though I assume that in given circumstances we might try to generate OAS action on the Bolivian problem or, in the extreme, take covert unilateral action of one kind or another.

It appears so far that we have been putting our energies into the formulation and application of the policy we have, and have not yet developed alternatives or something in the way of secondary insurance. Such insurance might be provided if there were an organization or agency in Bolivia which might act as a balance and, having the right capacity and orientation, be able to step into the breach in extreme circumstances.

The only organization in Bolivia which, if strengthened, might be able to take the kind of action required is the Bolivian Army. While the Army normally has such a function in Latin America, the Bolivian Army is probably not capable of performing it because of its inherent weakness and the added fact that it is now counterbalanced by a civilian militia which probably has greater capacities than it has. This would almost certainly be the case if the armed police (carabineros) did not support the army. It seems consistent to suggest, therefore, *that we expand our policy toward Bolivia by addition of a firm aim to see the formal military forces strengthened so that there would be some responsible body with strength from which leadership might emerge should the MNR regime collapse or become unfavorably reoriented from our point of view.*

Were we to adopt such a policy the possibility would have to be accepted that at some point a rejuvenated military might attempt to take matters into its own hands, with violence to the hope we have of seeing a gradual emergence of democratic practices in Bolivia. However, in the Bolivian context and especially in view of the degree of democracy which has historically existed or appears remotely possible in the foreseeable future, this possibility must be accepted. The fact that should need arise under present circumstances, there appears at present to be *no* responsible body capable of filling a void there seems to me to be the compelling element. In such an eventuality, not necessarily remote, possibly greater violence to the hope of democratic evolution would be done.

. . . .

To act on the lines recommended in Bolivia we would face the formidable problem of doing so without causing the government to suspect or believe erroneously that we were trying to build up a force which would eventually take over there. This would largely be a problem of tact, timing and approach; a problem which we already face to a more limited extent in the OCB expressed aims of (1) bringing about a reduction in size and influence of the civilian militia and (2) getting the Bolivian Government to increase its reliance on the formal armed forces. Essentially, what is recommended is an expansion and intensification of point (2) above. The need to do so arises basically from the fact that the Army in Bolivia is probably incapable of performing the traditional Latin American Army function of stepping into the breach left by political and social upheaval, acting as a balancing factor and binding force until such time as relative stability can be reformed through the traditional political structure.

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264. Telegram From the Acting Secretary of State to the Embassy in Bolivia[1]

Washington, March 15, 1956.

268. Joint State–Defense–ICA message. You are authorized discuss with President Siles proposed program (paragraph 39d Bolivia 1290d paper[2]) strengthen Bolivian Army. You may state US prepared at this time assist Bolivia obtain small arms and training or President's escort battalion approximately 550 men. FYI only recommendations your despatch 413 February 7[3] broader program under

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[1] Source: Department of State, Central Files, 724.5/2–757. Secret. Repeated to Panama for CINCARIB. Drafted by Sayre and William T. Briggs and initialed by Bernbaum.

[2] Reference is to the Operations Coordinating Board's "Analysis of Internal Security Situation in Bolivia and Recommended Action," December 21, 1955. (*Ibid.*, OCB Files: Lot 61 D 385, Latin America 1953–58) Paragraph 39 reads in part: "While no increase in the size of the armed forces need be sought at this time, it is in the U.S. interest that their morale and effectiveness be improved and that the confidence of the government and the people in those forces be restored. The Bolivian Government has given the armed forces the mission of aiding in the economic development of the country. By assisting the armed forces to perform this constructive role, the U.S. will help them regain the confidence of the government and the people. At the same time our assistance should be designed to enhance the prestige and to increase the effectiveness of the armed forces in their internal security role and to promote political stability based ultimately upon constitutional processes." Paragraph 39–d recommended provision of "end item grant aid in the form of individual weapons to one battalion-sized unit (the President Escort Regiment.)"

[3] There is no despatch of February 7 numbered 413. Despatch 412 of March 6, however, is the report and recommendations of the country team with reference to the OCB analysis of internal security in Bolivia. (*Ibid.*, Central Files, 724.5/3–656)

consideration here. However action herein contemplated authorized in paragraph 39d and considered within scope your recommendations. Since we have no military assistance agreement with Bolivia . . . in order avoid 1) possible accusation US intervention and 2) criticism by other LA countries which likewise do not have agreements and have requested but not received grant aid (End FYI) we suggest Bolivia buy under Section 106 Mutual Security Act[4] list equipment we would propose for this battalion approximate cost $119,915 and request (also under 106) training Army's ZI and Canal Zone schools about $157,440 for key personnel this battalion and 4 US mobile training teams provide training in Bolivia. Requests for equipment and for training would be made separate notes. Since we recognize Bolivia in present situation should not be encouraged devote foreign exchange military purposes, US for its part in developing grant economic program would take into account any increases required by effect purchase this equipment on Bolivia's dollar foreign exchange position. FYI only we desire avoid commitment requiring US match dollar for dollar foreign exchange [if] Bolivia utilizes purchase military equipment we suggest. Since US supporting Bolivia FY 1957 extent some $28 million and considering Bolivia has unilaterally spent $185,000 for F–51 and C–47 military aircraft recently we believe Bolivia should be willing accept general assurance US will provide if necessary adequate dollar support compensate military expenditures this program. End FYI.

If GOB concurs, Army Mission would assist implementation program.

We recognize proposed program might be politically infeasible Siles accept or he may desire different type assistance or timing. We are prepared consider any proposal Siles may have which would achieve our general objective strengthen Bolivian Army as opposed militia. Considering our relations other LA countries we consider best method financing that outlined above.

Herter

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[4] Reference is to P.L. 665; for text, see 68 Stat. 832.

265. Memorandum of a Conversation Between the Bolivian Ambassador (Andrade Uzquiano) and the Deputy Assistant Secretary for Inter-American Affairs (Lyon), Washington, July 22, 1956[1]

SUBJECT

Comments by Bolivian Ambassador on Various Inter-American Matters

During lunch today, the Bolivian Ambassador commented on a number of diverse matters:

Visits of President of Bolivia

The Ambassador said that he had just heard that the President of Bolivia would make a visit to Colombia. This will follow a scheduled visit to Ecuador and the visit of the President of Chile to Bolivia August 6.

Communists

After my reply to the Ambassador's inquiry with regard to my views concerning the Communist Party in Chile, I asked about the situation in his country. He said that they had no worries about Communists in Bolivia at the present. In fact, it was his theory that if the United States did not oppose the liberal elements in South America, the Communists would not constitute any danger in the Western Hemisphere. In the first place, according to the Ambassador, the Latin Americans are too individualistic, and they are too nationalistic. Before World War I, the European influence in Latin America was so great that leading writers, such as Conrado Gallardo and countless others, said that the weak feature of Latin America was the Indian population and that this would have to be replaced by Europeans. This theory was now a dead letter and the Latin countries were proud of their Indian heritage and truly American traditions. They would never tolerate domination from abroad.

I said that, in my opinion, however, the Communists could cause a good deal of difficulty in places such as, for example, Haiti, where one had a very critical economic situation plus the racial problem. The Ambassador said not even here there would be difficulty if we realized that the majority of the populations in Latin America for years had lived in an unfortunate economic situation. This had nothing to do with the United States. They had seen the rich living in luxury equal to anywhere else in the world, while the masses had been extremely poor. Naturally, the masses wanted to change this and were on the way toward doing so. The vested interests, in their attempt to preserve their own situation, frequently pointed the finger at those national leaders who were seeking to improve the condition of the masses, labeled them Communists, and thus sought to obtain United States support against these legitimate national movements. The problem, the Ambassador admitted, was a very delicate one, and it is one which we must handle very carefully.

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[1] Source: Department of State, Central Files, 720.00/7–2255. Confidential. Drafted by Lyon.

Communist Literature

In answer to my inquiry as to whether the Communists were pumping quantities of propaganda into Bolivia, the Ambassador told me that the Minister of Education of Bolivia[2] had told the Ambassador that the Minister had built up a library of fifteen hundred books, all of which he had received gratis from the Communists. About half of them were sheer propaganda, and about half of them were ordinary books well printed. I asked whence they came and how they were distributed, and the Ambassador replied that they came in the ordinary mails, presumably from the USSR or other countries.

Argentina

The Ambassador believes that Peron will finish his term as President. However, he thinks that Peron's powers have been considerably limited and the Army will control him, but they will not put him out. Furthermore, in the Ambassador's opinion, the opposition in Argentina could not be worse organized; it is hopeless, he feels.

U.S. Policy for Latin America

The Ambassador feels that the US policy so far as South America is concerned is piecemeal. In his opinion, we have never planned a long-range policy but merely tackled problems when they arose. He thinks the day has passed when the United States can afford this. He recommends that we prepare a long-range western continental policy. I pointed out to him that, in my opinion, considerable progress had been made through the creation of the OAS and our whole inter-American system. He agreed that if one compared the situation today with that of twenty years ago, much progress had been made, but he feels we could go much farther. I said that certainly one of our policies was an attempt to act as one of twenty-one states in conjunction with them. The Ambassador said this was quite impossible. It is really the United States on one hand, and twenty states on the other, and they all realize this. He said that in our long-range policy, there might be certain things that the Latin American countries would not like but that we should go forward with them, in any event. For example, Venezuela; her Government was a dictatorship which was maintaining itself by force: elaborate barracks, the most modern armament, etc. It was not, however, the people's will that Perez Jimenez continue in power forever. We have ways of letting the Venezuelans know that this is not in the American tradition.

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[2] Fernando Diez de Medina.

Armaments

When the Ambassador referred to the subject of Venezuelan armaments, I told him that one of the things that worried me was the inter-American race for armament. He said we should call a conference to deal with this; that at this point there was no need for rivalry among the various American Republics. We should tell the American Governments that the frontiers were now fixed, that there would be no more frontier squabbling, and that we would guarantee the present frontiers. Then all that would be necessary would be a continental defense force. In the Ambassador's opinion, that should be a coordinated defense force with a unified command. He said that most of the Latin American countries, if they knew we favored this, would support it strongly.

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266. Memorandum of a Conversation, Embassy Residence, Panama City, July 23, 1956[1]

PRESENT

The President[2]	President-elect Hernan Siles Zuazo
The Secretary of State	Foreign Minister Barrau
Asst. Secy Holland	Ambassador to the United States Victor Andrade
Mr. Maurice Bernbaum (OSA)	

President-elect Siles Zuazo expressed the gratitude of the Bolivian Government and people for the aid that Bolivia has received from the United States. He pointed in this regard to the great advances made as the result of United States assistance in education, the eradication of disease, particularly infant mortality, and in the diversification of agriculture and industry. Bolivia does not want to depend indefinitely on the United States taxpayer, he continued, stating that he believed that if the United States could increase the amount of its annual contribution during this time of crisis it would result in an over-all shortening of the period during which Bolivia would have to depend upon the United States.

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[1] Source: Eisenhower Library, Whitman File, International File. Confidential. Drafted by Bernbaum.

[2] President Eisenhower was in Panama City for a Meeting of the Presidents of the American Republics, July 21–22, 1956; see vol. VI, Documents 109 ff.

The aid which Bolivia receives from the United States is of two kinds—for the assurance of at least the subsistence of its population during a period of severe economic difficulty and for the simultaneous diversification of the Bolivian economy, Siles said. It would be better if this fact were clearly recognized and announced, he added.

President-elect Siles pointed out that the aid which the United States has extended to Bolivia has established certain well-defined advantages. One such advantage has been the refutation of thirty years of propaganda to the effect that effective cooperation cannot be brought about between a "progressive" government such as Bolivia's and a government like that of the United States, he said. The demonstration of democratic processes in the recent Bolivian election, where all people voted for the first time, including illiterates, must also be considered a concrete product of our aid program, according to Mr. Siles. The result of the voting, he said, showed overwhelming support for the Government. Moreover, he continued, the Communist Party produced such an infinitesimal vote as to make it certain that it will be unable to exert any effective influence on the Government of Bolivia.

Mr. Siles added that United States aid to Bolivia is demonstrating that through such programs real and measurable results may be achieved in raising the living standards of the country's three million people, who live in one million square kilometers of national territory.

President-elect Siles then referred to Bolivia's difficult problems, noting that the country is overwhelmingly a mining country, depending on the sale of tin for most of its foreign exchange. The recent downward fluctuations in the price of tin have had serious consequences, and an added depressing factor has been the decision of the United States to terminate the operation of the Texas City smelter, leaving Bolivia with only one market for its tin, i.e. England, he continued. Mr. Siles said that in this situation British buyers would be able to contract for Bolivian tin at less favorable prices than heretofore, because of the cessation of United States purchases.

He was also concerned about the recent termination of a GSA contract for the purchase of wolframite, and the imminent expiration of the remaining such contracts for United States Government purchases of this ore. This will mean a loss of some $3,000,000 annually to Bolivia, as well as serious unemployment, he said.

President Eisenhower expressed his appreciation for President-elect Siles' statements on the importance of United States assistance to Bolivia. Addressing himself to Mr. Siles' specific points, President Eisenhower said that it would not be feasible for the United States to continue purchases of Bolivian tin and tungsten because stockpile requirements for both metals have already been exceeded. As to the Texas City smelter, the President pointed out that it is an inefficient smelter whose operation on a commercial basis would be impractical. He expressed doubt that Bolivia's future best interests lie in continued reliance on tin and tungsten, and said that it would be best for both countries to look for other ways to find solutions of Bolivia's problems. He assured Mr. Siles of our continuing and keen interest in the welfare of the Bolivian people. With respect to the development of other means whereby the United States might assist effectively, the President referred to the proposal which he had made in his speech to the other Chiefs of State in which he had recommended that each President name a special representative to study the operations of the Organization of American States and to submit concrete recommendations as to how that organization might be made a more effective one in coordinating the various economies of the different countries to produce over-all progress in the hemisphere.

President-elect Siles responded that he would like to make one concrete proposal. It was that the United States consider issuing a declaration to the effect that it would stand ready to support and implement recommendations which might be made by the Financial Mission recently established in Bolivia by agreement between the two governments and at the suggestion of the Department of State. This Mission is headed by Mr. George J. Eder,[3] he continued. Mr. Siles explained that Bolivia is now in the midst of a serious inflationary spiral, one which is so rapid that it is necessary to consider salary adjustments almost every month. The Financial Mission is of the opinion that this inflationary spiral cannot be brought under control before the end of this year, he said. He expressed hope that a declaration of the kind that he recommended might produce a halt, or at least a pause in the inflationary spiral during the remainder of this year, thus affording some relief to the Bolivian economy until steps could be taken to bring the inflation under control.

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[3] A lawyer on leave from the International Telephone and Telegraph Company, Eder was temporarily employed by the ICA. He was assigned to assist and advise the Government of Bolivia in the formulation of overall economic, fiscal, and budgetary policy. For a detailed analysis of his work, see George Jackson Eder, *Inflation and Development in Latin America, A Case History of Inflation and Stabilization in Bolivia* (Ann Arbor, Michigan, Graduate School of Business Administration, 1968).

President Eisenhower stated that he could not give a prompt answer to President-elect Siles' request, but that he could readily see what the latter wishes to achieve with such a statement. He added that to be effective, any statement contemplated would have to be made promptly. The President said that this matter would receive prompt and sympathetic consideration in Washington. He assured the President-elect that the United States would not relax in its interest in Bolivia and its problems, concluding with a statement to the effect that this interest in Bolivia will not be diminished by the pressure of problems elsewhere in the world.

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267. Memorandum of a Conversation, La Paz, August 7, 1956[1]

PARTICIPANTS

His Excellency Señor Don Hernán Siles Zuazo, President of Bolivia
Mr. Gerald A. Drew, American Ambassador
Mr. Henry F. Holland, Assistant Secretary of State

SUBJECT

Conversation with the President on Bolivian Problems

I made more or less the following statement to the President:

The United States seeks the same objectives in Bolivia that we believe his Government seeks. That is a stable government and a stable and progressing economy. We seek this objective because the interests of the people of the United States are served if these objectives can be attained in Bolivia.

It seems to me that the current problem of the Government in Bolivia can be divided into two phases. The first is the protection and strengthening of the existing economy. The second is to enlarge and expand that economy once its preservation has been assured. Measures that serve one of these two objectives may or may not have some effect on the other.

Referring to the first objective, i.e., the preservation of the existing economy, conferences which I have had with representatives of our Government lead me to believe that the economy is now imperiled by three problems.

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[1] Source: Department of State, Central Files, 824.00/8–756. Confidential. Drafted by Holland.

The first of these problems is that arising from the fact that the mining industry is not operating on a self-sufficient basis. Since its operations produce very large monthly deficits and these deficits are met by the issuance of Central Bank notes we have a continuing factor producing an accelerating inflationary spiral. There is no prospect of checking this inflation until the mining industry is placed on a self-sustaining basis and the continuing issuance of new Central Bank notes is stopped.

The second problem is that of the completely artificial exchange rate of 190 bolivianos to the dollar. This greatly underprices all imports and is a deterrent to exports.

As a feature of the second problem is the third which is the rate at which agricultural products supplied by the United States are sold. At a rate of 190 bolivianos a dollar's worth of wheat is sold for less than 1 cent. This has two inevitable results. The first is that the purchaser of these products will re-export it to surrounding countries where it can be sold at world prices for a large speculative profit. The second result is that the presence in the market of agricultural products at such ridiculously low prices effectively stifles all effort on the part of local agriculture to produce the foodstuffs which could replace those imported from the United States.

I am told that the solution of all three of these problems, while difficult, is practical and can be achieved within a reasonable period of time. The exchange problem and the related problem of the prices at which our agricultural products are sold can be cured by freeing the exchange rate. The problem of the uneconomic operation of the mines is more complicated, but I am told that it, likewise, can be solved. The solution would include such measures as termination of the subsidized commissaries (or pulperias), a situation related to the price of our agricultural products to which I have already referred. The correction of the situation in the mining industry would also require that the Government pay to the mining industry for dollars earned by it a number of bolivianos having some realistic relation to the value of the dollar. By the present exchange basis used in the mining industry the Government is stifling the industry. These corrections would necessitate raising the salaries of the miners very substantially to compensate them for the loss of their commissary privileges. However, this increase in operating cost could be met if the mines were allowed a realistic number of bolivianos for each dollar that they earn in the export market.

I believe that these measures, which in very general terms indicate the road to protect and preserve the existing economy, can be taken during the next few months. From the point of view of the

United States it is very important that they be taken during the next few months. The reason is that the Congress of the United States, while generous in its attitude toward Bolivia's problems, wants to feel that United States funds appropriated as aid to Bolivia are going into the preservation of a viable national economy. The Congress of the United States is reluctant to appropriate aid if there is no reasonable certainty that the national economy into which that aid goes is, or can become, a self-sustaining economy. I have now appeared before Congressional Committees on three successive years to discuss aid to Bolivia. On each occasion I am questioned as to how long it is reasonable to expect that this aid will be required and what results are being achieved by it in terms of establishing a self-sustained Bolivian economy. Each year the interest of the Congress in this subject is reasonably more intense. I anticipate that during the next session, when the question of appropriations for aid to Bolivia come up, the Congress will be even more exacting in its inquiries than it has been in the past.

I mentioned parenthetically that the Patiño Mines & Enterprises Consolidated had written to each member of the Senate Foreign Relations Committee to state that any previous assurances that it was engaged in negotiations with the Bolivian Government for renewal or extension of the Retentions Agreement were no longer valid. I said that in the past when inquiries were received from members of our Congress, the Department had been in the position of being able to state that negotiations were under way with the only American interest concerned, namely, Patiño Mines. I feared that unless a settlement were reached with this company, or at least unless negotiations looking to that end were under way, my task before the Committees of Congress in the spring of 1957 in attempting to justify further aid to Bolivia would be made infinitely more difficult. I said that we in the Department did not wish to become involved with the substantive details of the negotiations, but that we felt very strongly that it was in Bolivia's own best interests to reach a mutually acceptable settlement with the former owners of the nationalized mines.

I continued that these hearings need not be a cause for great concern if the Bolivian Government with our cooperation undertakes immediately the steps which it is apparent must be taken in order to put the economy on a self-sustaining basis. We are entering into Fiscal Year 1957. Almost 11 months remain of that fiscal year. The appropriation of aid to Bolivia by the last Congress assures that our programs of aid will go forward adequately financed for the next succeeding 11 months. Hearings on new appropriations for aid to Bolivia will probably begin about April of 1957. It is essential from the Bolivian point of view that before that day, Bolivia have completed a sufficient amount of progress along the path that I have indicated for the Congress of the United States to have confidence that further aid to Bolivia will, in fact, assure a self-sustaining national economy.

Having outlined the program that we thought the Government should follow in order to improve the existing economy, I undertook to indicate certain obstructions or obstacles which might make this difficult. The first one is the domestic political situation. Does the MNR have sufficient political cohesiveness to undertake a difficult program successfully? I told the President that the Ambassador and I had had a long talk with Juan Lechin in which we described the problem as we saw it and the remedies indicated. Lechin had told us that he and his group were willing to support such a program.

As another possible obstruction to an effective stabilization program, I said that in all probability the Communist Party will do its best to block the Government. The recent elections show that numerically the Party is not a political factor of importance. However, using their clandestine organization and all other resources, they will try to prevent a stabilization program because their objective is to create chaos, drive a wedge between the Government and the people, identify themselves with the people and undertake to overthrow the Government. I explained that measures which were effective in combating Communism on the ideological front were often completely ineffective in combating Communism on the subversive front. On the latter point, the job can only be done by relying on trained individuals who are professionally prepared in the field of counter-espionage and anti-subversive work.

As regards the second of the Government's two problems, that is, the problem of expanding and diversifying the country's existing economy, I said that it appeared to us that the steps now planned by the Government are adequate. These include the existing Investment Guaranty Agreement,[2] the Petroleum Code,[3] the proposed Mining Code, and the proposed Investment Code. It is our judgment that if these measures are added to a program of basic stabilization, they will surely achieve substantial expansion of the country's economy.

I said that we had been impressed by the need to coordinate closely all of the different steps comprising a stabilization program. If these are taken in an erratic or uncoordinated manner they might well work against each other. I urged, therefore, that the President coordinate closely with the Ambassador, Mr. Eder, Mr. Moore[4] and the representatives of Ford, Bacon and Davis and, particularly, that no measures be undertaken by the Government in this field without prior coordination with our representatives.

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[2] For the exchange of notes constituting the referenced agreement, signed at La Paz, September 23, 1955, and entered into force on the same date, see 6 UST 3948.

[3] The Petroleum Code was issued as an Executive decree on October 26, 1956, and enacted into law by the Bolivian Congress on October 25, 1956. It was drafted with the assistance of Worth Davenport, senior partner of the New York law firm of Schuster and Davenport, who was under contract with ICA. Documentation on the subject is in Department of State, Central File 824.2556.

To all the foregoing the President replied as follows:

Communism. The Government has a Communist problem. The Communists, ever since the Revolution, have attempted to distort constructive measures taken by the Government to make them actually harmful to the Government's program. For example, when the Government undertook the land reform program, the Communists insisted that the estates which were mechanized and being operated successfully be broken up. This meant that agricultural units which had been productive became unproductive.

The Communists also sought to force the Government into a policy of expropriation without compensation both as regards the mining companies and the land reform program.

. . . .

The President complained of the lack of support among his own party leaders. In private conversations they would agree to support necessary programs, but would thereafter openly oppose them for political reasons. However, he said that he did feel that he could muster sufficient support from Lechin and other elements of the party to succeed in a stabilization program such as that which we had outlined.

He said that he felt confident that by January of 1957 he could have developed and placed in operation a stabilization program which would strengthen the position of the Department of State in discussing the Bolivian aid program with Congressional Appropriations Committees. He agreed that he would immediately resume negotiations with the tin companies and would insist on the continuation of those negotiations so that, even if he fails to reach an agreement as to the amount of compensation, he would build up a record of vigorous and good faith efforts to reach an agreement.

The President then outlined some of his own ideas in the economic field. One of these was a proposal to tax retroactively large incomes earned since the 1952 Revolution. He explained that this would affect the people of means like himself rather than the working elements. He believed that such a measure, while hard on the group affected, would convince the union groups that the balance of the party, and particularly Government leaders, were willing to share the hardships of a stabilization program. This he believed would insure support from the union groups for the Government's program.

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[4] Ross Moore, Director of the U.S. Operations Mission in Bolivia.

He then explained a proposal to divide up state-owned agricultural land near the principal cities and give plots of land to Government employees for them to work in their spare time. He believed that this would make them into small capitalists who would enthusiastically support the Government's programs to stabilize the national economy.

We did not comment on either of these two proposals other than to urge that nothing be done without prior close coordination with our own experts.

Fearing that the Government might try to influence Ford, Bacon and Davis to reflect a rosy picture of the nationalized mines in their report, I pointed out to the President the possible significance of that report in his negotiations with the tin companies. If, in fact, the mines are approaching a state of exhaustion, then this should be frankly stated if, for no other reason, because of the effect that it will have in negotiations regarding compensation for the mines. He said that he would urge that Ford, Bacon and Davis reflect faithfully in their report the actual situation of the mines.

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268. Notes of the Secretary of State's Staff Meeting, Department of State, Washington, August 31, 1956, 9:15 a.m.[1]

[Here follow a list of those present (18), an unrelated intelligence briefing, and discussion of a rumor regarding a microphone in the French Embassy.]

3. *Economic Situation in Bolivia*—Mr. Holland reported at some length on the soaring inflationary situation in Bolivia which could become critical within the next 4 or 5 months unless steps are taken within the next 10 days by this Government to provide a stabilization fund and give full backing to Mr. George Eder, a former IT&T official who is now serving on the ICA payroll as an Advisor to the Bolivian Government. The Secretary agreed on the desirability for close cooperation among the many interested Government agencies and added that, if the Bolivians are willing to accept our advice,

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[1] Source: Department of State, Secretary's Staff Meetings: Lot 63 D 75. Secret. Prepared by Eugene V. McAuliffe, Chief of the Reports and Operations Staff of the Executive Secretariat.

differences among agencies of this Government must not be the cause of any delay. In cases of this sort, he observed, inaction is often worse than the least desirable program supported by any agency.

Action: ARA, in close coordination with E and other interested agencies of this Government, to prepare promptly a program to combat the inflationary tendencies which threaten Bolivia's political stability.

[Here follows discussion of the Suez Canal situation.]

E. V. McAuliffe

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269. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Bolivia (Drew)[1]

Washington, August 31, 1956.

DEAR JERRY: With reference to your letter of August 14, 1956[2] regarding implementation of the OCB Plan against Communism in Latin America,[3] I think your points are very well taken. You have noted from the Under Secretary's letter of May 17[4] that the Plan is not to be considered inflexible and that not all courses of action will be equally applicable to all countries. This provision in the Under Secretary's letter distributing the Plan was put in so that people on the spot would not feel that their hands were tied and in order to give them the necessary flexibility and freedom of action within the framework of a paper attempting to cover 20 countries and prepared here in Washington. Implementation is up to you, and the Department will be guided by your recommendations.

We concur in the opinion of your country team that in Bolivia emphasis needs to be placed on:

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[1] Source: Department of State, OCB Files: Lot 61 D 385, Latin America—General, 1953–58. Secret. Drafted by King and cleared by Bernbaum, Briggs, Turkel, and Richards.

[2] Drew's letter is summarized in paragraphs (a), (b), and (c) of Holland's letter. (*Ibid.*, Central Files, 720.001/8–1456) A report on implementation of the OCB plan was transmitted in despatch 73 from La Paz, August 16. (*Ibid.*, 720.001/8–1656)

[3] See vol. VI, Document 18.

[4] Not printed. (Department of State, Central Files, 611.20/5–1756)

(a) better control of the international movement of communists and pro-communists (I would add control of their propaganda material, much of which seems to move into Bolivia via the Czechoslovak Legation and is distributed widely, including to neighboring countries, from there);

(b) a tightening of legislation with respect to subversion (I would include in this enforcement of existing legislation); and

(c) a more aggressive campaign against communists and pro-communists holding positions of influence in the Government and in the educational system.

My only comment is that these points do not hit at another problem which is, in my estimation, serious in Bolivia and other Latin American countries. This is the tendency to view local communists as "patriotic" if misguided individuals rather than as agents of an international conspiracy. We hear so often that so-and-so may be a communist but after all "he's a good Bolivian"—or a good Chilean, or Brazilian, etc. The other side of the coin is the tendency to view communists as simply local political opponents to be dealt with merely as the "outs" wanting to get "in." Courses of action 5a and 10a of the Outline Plan under reference are aimed at this problem. Anything you can devise in this connection to supplement your other ideas would be advantageous.

If you have not already submitted one, I would find it most interesting to receive a summary of the informal measures taken by the Embassy over the past year to carry out paragraph 11 of the Joint Program agreed upon with Bolivia in June of last year. The Outline Plan under discussion as a whole has the same objectives as paragraph 11 of the Joint Program, of course, but paragraphs 6, 8, 10, 11, 13 and 14 are particularly pertinent. Also paragraph 35 of the OCB paper on Bolivian internal security,[5] sent the then Chargé d'Affaires ad interim on January 13, 1956 by the Under Secretary, has the same objective. A summary as requested would be of great help to us in reporting implementation of these OCB documents.

I would not want the anti-communist programs to prejudice our economic programs or interfere with the attainment of their objectives, as I explained them in my talks with Paz Estenssoro and Siles. At the same time, attainment of our economic objectives without some success in the anti-communist field would be a hollow achievement indeed. Arriving at a balance between the two efforts, and the timing of specific moves in each field, will of necessity be based largely on the recommendations of you who are on the spot. At the present time I am inclined to agree with you that too great an emphasis on the anti-communist side could have undesirable political consequences and hence concur in your recommendation that we not put too much pressure on the Bolivians in the communist field right now. At the same time, unless the Bolivians recognize communism as an international subversive conspiracy which is a separate and distinct threat not to be dealt with as merely a part of the political opposition (para. 5a) and unless they control communist movements, activities and propaganda (paras. 6, 13 and 14) then communists will be free to work with impunity against our economic programs. And they have the Czechoslovak Legation to give them direction and support.

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[5] Not printed. (*Ibid.*, S/S–OCB Files: Lot 61 D 385, Latin America—1953–1958)

Consequently, when you sit down with President Siles to go over your "inventory" as proposed, I suggest you point out to him the interrelationship between success in the anti-communist field and success in the economic field. I do not suggest that you put great pressure on him to take specific actions at this time, but he should have a clear understanding of our conviction that communists are opposed to economic progress which meets the needs and aspirations of the masses, particularly if accomplished with US support, and that success in the economic field thus depends in part on effective measures to control communism. You might also modify point no. 7 of the inventory to ask why Siñani was given an *official* passport.

You have raised interesting and difficult points in your letter. I hope the foregoing will be helpful to you. I am always glad to have your comments and suggestions and, as stated above, will rely on your judgment in these matters.

Sincerely,

Henry F. Holland[6]

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[6] Printed from a copy which bears this typed signature.

270. National Intelligence Estimate[1]

NIE 92–56 *Washington, September 11, 1956.*

THE OUTLOOK FOR BOLIVIA[2]

The Problem

To estimate the character and future stability of the present government.

Conclusions

1. As shown in the recent elections, the moderate leftist Nationalist Revolutionary Movement (MNR) regime has successfully consolidated its position and achieved a degree of political stability unusual for Bolivia. However, Bolivia's basic economic problems have been aggravated by the MNR's tin nationalization and land reform policies. These policies led to decreased agricultural output and increased tin mining costs at a time when world tin prices were declining, and they accelerated the inflationary trend. Only US aid has prevented collapse of the regime. *(Paras. 10–22, 32–37)*

2. The only opposition party capable of even a limited challenge to the MNR is the right-of-center Bolivian Socialist Falange (FSB). The Communists are few in number, and the MNR has succeeded in reducing but not eliminating their influence. Although we do not believe that either the Communists or the FSB can develop sufficient strength to pose a serious challenge to the MNR during the next few years, we believe both the Communists and the rightist parties possess sufficient potential to exploit possible future economic deterioration or a split within the MNR. *(Paras. 23–26, 44)*

3. The strongest internal threat to political stability lies in the possibility of an open break between the moderate and left wings of

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[1] Source: Department of State, INR–NIE Files. Secret. National Intelligence Estimates (NIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of Cabinet rank, and the National Security Council. The Department of State provided all political and some economic sections of the NIEs.

[2] A note on the cover sheet reads as follows: "Concurred in by the Intelligence Advisory Committee on 11 September 1956. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction."

the MNR. Since 1952 Juan Lechin, the influential leader of the left, has refrained from using his political power to unseat the Paz administration. For reasons of political expediency and party unity he will probably continue this policy toward the Siles government. We believe, however, that Lechin would not hesitate to move against President Siles if he felt that his power or freedom of political action were being seriously circumscribed either by design or by force of events. *(Paras. 18–19, 42–43)*

4. The stability and political orientation of the MNR will also be strongly influenced by its efforts to control inflation and by the external assistance it receives over the next few years. Withdrawal of US assistance would almost certainly lead to the adoption of more radical and nationalistic policies by the MNR, and would probably cause the repudiation of moderate MNR leadership and bring leftist MNR factions into power. We cannot at present estimate the political course of Bolivia after the emergence of such a regime. *(Paras. 45–46)*

5. In the event of an attempted overthrow of the government from the right, the civilian militia would support the regime and would almost certainly be joined by enough elements of the army and Carabineros to insure the survival of the government. The outcome of a conflict resulting from a left-moderate split within the MNR would be considerably more doubtful. For reasons of self-interest, if not of loyalty, the bulk of the army and the Carabineros would probably support the moderates against the large group of worker militia who would follow leftist leadership. Under present conditions, it is probable that the army and Carabineros combined could successfully defend the government against an attack by the militia alone, but any substantial defection from either army or Carabineros would make the outcome extremely doubtful. *(Paras. 27–31)*

6. Bolivia has shown increasing willingness to follow a pro-US foreign policy. It so far has manifested little interest in strengthening its negligible ties with the Soviet Bloc, despite several Bloc overtures. Should the Bolivian government feel that the country's economic progress were being thwarted, either by deficient export earnings or inadequate US assistance, strong pressures would be generated within the MNR to develop and expand economic and other relations with the Bloc countries. *(Paras. 48–49)*

Discussion

I. Background

7. Bolivia, despite substantial undeveloped natural wealth, is a desperately poor country. Formidable geographical obstacles and lack

of transportation facilities have hampered national growth. The population of about three and a half million, consisting mainly of illiterate Indians and mestizos, is clustered mostly on the high Andean tableland, while the more fertile but less accessible lowlands to the east are largely undeveloped. Most of the population is rural and exists on a subsistence agricultural economy. Mining, principally tin, provides the great bulk of government revenues and foreign exchange.

8. Bolivia's modern political problems are rooted in its traditional economic and social structure. The nation has long been divided into two almost independently operating economic systems: one based upon world markets and dependent upon the tin mining enterprises; the other based upon local markets and inefficient farming by large landholders. In both systems, the workers were largely immobilized by rigid social and "racial" stratification. Political control was exercised by the major mining interests and the large landholders, and was guaranteed by the army.

9. This pattern was initially shaken by the Chaco War with Paraguay (1932–1935). With the increased mobility and the contact between classes occasioned by the war, new values and aspirations were created as well as consciousness of a common nationality. The defeat of the army and the loss of prestige suffered by the ruling hierarchy contributed further to popular unrest. At the same time, the literate "middle class"[3] became a susceptible target for Marxist propaganda, which helped articulate the general discontent. In the period following the Chaco War various political groups and movements of nationalist character, employing Marxist formulations, emerged to express the need for socio-economic change. The most effective of these groups was the Nationalist Revolutionary Movement (MNR). In the elections of 1951, the MNR, with strong urban middle class support, won a substantial plurality of the vote of the narrowly restricted electorate for its presidential candidate Victor Paz Estenssoro.[4] However, his inauguration was forestalled by the incumbent government, which turned over its power to a military junta.

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[3] The term "middle class" is used in this estimate to describe the bureaucracy, white collar workers, and the middle levels of business and the professions. It should be noted that in Bolivia this group differs markedly from groups described as middle class in the United States. The size of this group is relatively much smaller in Bolivia, its level of income is considerably lower, and it does not share a common framework of political and social beliefs to anything like the same degree as the corresponding groups in the US. [Footnote in the source text.]

[4] Paz was formerly Vice President of the Chamber of Deputies (1940–1941), Minister of Economy (1941), member of Government Junta (1943–1944), Minister of Finance (1945–1946), in exile in Argentina (1946–1952), President (1952–1956). He is presently Ambassador-designate to Great Britain. [Footnote in the source text.]

10. In April 1952 this junta was overthrown by a revolution organized by the MNR, and supported by the police and armed workers, who completely routed the army. Paz was recalled from exile in Argentina to assume the presidency. The MNR's middle class leaders were at first unable to contain the momentum generated by the volatile popular forces released by the revolution. The armed mineworkers organization promptly moved into the vacuum created by the removal of the army. The MNR program called for eventual nationalization of the large mining companies but the pressure of the armed mineworkers forced MNR leaders to take more immediate and extreme action. Although leftist groups demanded expropriation without compensation, the MNR leaders acknowledged the obligation to compensate and have subsequently made some payments pending final agreement on terms with the companies. The regime also at first attempted to deal with the revolutionary agitation developing in rural areas by promising to enforce existing laws curbing the exploitation of the peasants by the large estate owners. However, when the peasants began seizing the lands, the MNR leaders agreed to sanction more radical actions than their original program called for, and in August 1953, they decreed widespread expropriation of large land holdings.

11. Such radical measures as these temporarily placated the extremist popular groups within the MNR. These measures enabled the MNR leadership to gain a considerable measure of cooperation from these groups and gave it an opportunity to shift toward a more moderate position. Timely US economic aid in November 1953 implied an endorsement of the MNR, and provided the means for achieving a new equilibrium of forces. Moreover, the offer of US assistance to cover emergency food shortages and to support long-range plans of economic diversification supplied the moderate leadership within MNR with leverage against both the left and the right of the party, and gave it a chance to stabilize the party organization.

12. The militancy of labor was gradually diminished. Some extremists and Communists were displaced from key positions in the Bolivian Workers Confederation (COB); others were persuaded to renounce their Communist allegiance and join the MNR. At the same time, the MNR's political control of the country was strengthened as radical elements in government posts were reduced. In a further move to strengthen their position and to reduce the political appeal of the left, the MNR policy makers launched an ambitious economic program.

13. The attempt of some MNR leaders to orient MNR policy further toward the right and to circumscribe the influence of labor and the peasantry upon the party and the government was success-

fully fought off by Juan Lechin[5] and his followers at the MNR party convention in January 1956. Foreign Minister Walter Guevara Arce,[6] the proponent of rightward orientation of the MNR, was censured by the party and he resigned his cabinet post. Lechin demonstrated at the convention his very considerable strength, but has pushed his advantage no further; he and the MNR left have continued to support the moderate program formulated for the 1956 elections.

14. The political control exercised by the MNR together with the appeal of its program was reflected in the MNR's overwhelming victory in the June 1956 elections. In elections which were relatively free from fraud and coercion, the MNR won 84.5 percent of the vote and substantial victory margins in each of the nation's nine departments. The government party was thus assured of all 18 Senate seats and 63 of the 68 seats in the Chamber of Deputies. Vice President Hernan Siles Zuazo[7] was elected President.

II. Present Political Situation

The Regime and Its Supporters

15. Despite severe economic difficulties, the MNR regime has achieved an unusually high degree of stability for Bolivia through the maintenance of party unity, the popular appeal of its revolutionary policies, the extension of the party apparatus in labor, peasant, and business organizations, and the continuing support received from the US. It has successfully consolidated its position of leadership and has struck a balance between its own interests and those of labor and rural groups, chiefly at the expense of the old propertied groups. Mining, urban, and rural labor have political representation and considerable influence in the government, but MNR middle class groups, both business and professional, form the bureaucracy and hold most of the top governmental posts. The old oligarchy is

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[5] Lechin has been Bolivia's leading labor leader since 1952. Under arrest or in exile between 1949 and 1951, he returned after the 1952 revolution to become Minister of Mines and Petroleum until 1954. He is the Executive Secretary of the Bolivian Workers Confederation (COB), a member of MNR's policy-making National Political Committee (CPN), President of the Senate, and acknowledged leader of MNR's left wing. He has frequently expressed Marxist beliefs, but charges that he is pro-Communist have not been documented. See also paragraph 43. [Footnote in the source text.]

[6] Guevara was in exile in Argentina (1946–1949), Senator (1951), CPN member (1952–January 1956). [Footnote in the source text.]

[7] President Siles has been a top MNR leader since 1941. He was in exile, under arrest, or clandestinely directing MNR forces in Bolivia between 1946 and 1951. He helped plan the 1952 revolution and took charge of the provisional government until after the arrival of Paz from exile in Argentina. He was Vice President from 1952 to 1956. Formerly he displayed an anti-US attitude but over the past few years he seems to have become increasingly convinced that Bolivia must maintain friendly relations with the US. [Footnote in the source text.]

either in exile or stripped of power, and the army has been purged and offset by party, peasant, and worker militias, as well as by the police. The State, through the nationalization of the mines, has taken over the role of the powerful mining interests and now controls the exportable wealth of the nation. It has also, as a result of agrarian reform, largely eliminated the large landholders.

16. The party organization parallels the government structure at all levels, interlocks with it, and also extends into the social and institutional groups supporting the regime. Its political control is exercised through a party organization staffed by some thousands of party militants arrayed in an elaborate hierarchy, headed by the policy-making National Political Committee (CPN). The 19-man committee includes ex-officio the President of Bolivia, the Vice President, and two members of the cabinet. Eleven other professional people, three labor leaders, and one businessman are also members of the CPN. Nine members of the committee are moderates, eight are leftists, and the political affiliation of the remaining two cannot be determined.

17. The MNR exerts far reaching control over the national economy. It exercises direct influence in staffing the important semiautonomous economic agencies such as the Bolivian Mining Corporation, the Petroleum Corporation (YPFB), the state banks, and special planning commissions. Local businessmen have found it advisable either to join the MNR or hire MNR members to represent their interests before the government and the labor organizations. There is also an interlocking between labor and the MNR. Three members of the COB including Lechin are also members of the CPN.

18. The MNR has become an increasingly effective party because it developed a powerful organizational structure and because it was able to secure widespread popular support, a large part of which depends upon the backing of organized labor and of the civilian militia. The 1956 party platform, in particular, reveals that the most important factional differences within the MNR, which have appeared from time to time since 1952, have so far been resolved by the political requirement of party unity. The "moderate" sector of the party, which now exercises leadership, is headed by Siles and Paz. The "leftist" faction of the MNR, led by Lechin and by Vice President Nuflo Chavez,[8] has differed from the moderates more in theoretical orientation and inclination than on specific party policy.

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[8] Vice President Chavez, long time MNR party militant, was in prison and in exile for participation in revolutionary activities between 1949 and 1952. He was Minister of Rural Affairs between 1952 and 1956. He has Marxist tendencies, but he is believed to be non-Communist. His international sympathies are unknown. [Footnote in the source text.]

These differences reside largely in the greater reliance of the leftists upon Marxist doctrine, their non-Communist rather than an anti-Communist attitude, their distrust of US aid and ultimate objectives, and their desire to accelerate popular reforms and to strengthen the civilian militia.

19. The relative strength of political factions in the government reflects in general the political alignments in the MNR party organization. The executive branch, traditionally the stronger of the two branches of government, is headed by a moderate president, who presides over a cabinet of predominantly moderate orientation. However, the Vice President is leftist. In the legislative branch, the moderates comprise at least half of the membership of the Senate, while in the lower house 45 of the 63 MNR deputies are responsive to labor and peasant interests, or are acceptable to Lechin. In view of this composition of the government one of the principal problems which faces Siles is control of the first elected legislature. So far, Lechin, who exercises considerable influence over the legislature, has demonstrated a general willingness to accept the moderate policies of the regime.

20. Middle class support of the MNR consists of the bureaucracy, unionized white collar workers, and some members of business and the professions. MNR has effectively infiltrated opposition business groups through party "delegates," and in all urban centers, middle class members of the MNR hold positions of control either through business privileges or political appointments. However, the slim urban majorities gained by the MNR in the June elections indicate that the party is far from enjoying undivided middle class support.

21. Labor support for the MNR is effectively provided by the COB whose membership, comprising all rural, industrial, and white collar unions, is estimated at 240,000. The 60,000-man Mineworkers Federation, led by Lechin, is the most powerful COB affiliate, and the most articulate exponent and defender of the left wing point of view within the MNR. Even further to the left are the Railroad Workers Confederation, led by pro-Communist elements, and the teachers union, in which Communist influence is significant. Left wing influence has been partially balanced by the factory worker and some white collar federations, which have been consistently dominated by moderate elements within the MNR.

22. Although Bolivia's peasant population (estimated at 2,500,000) provides the MNR's principal electoral base, the 7,000 peasant organizations are not as tightly organized as the miners and urban workers, and the MNR has, therefore, been less successful in establishing control over them. Development of articulate support among the peasantry is handicapped by language barriers and by the

traditional peasant isolation from national politics. However, MNR counterinfiltration has considerably curbed Communist strength among peasant groups.

The Opposition

23. The only opposition party capable of offering even a limited challenge to the MNR is the right-of-center Bolivian Socialist Falange (FSB). During the 1952–1955 period, the FSB along with other rightist parties was suppressed. It operated from exile and was dedicated to the armed overthrow of the MNR regime. Recently it was granted amnesty, legalized, and permitted to participate in the June 1956 elections. It was, however, allowed only a short time to organize and campaign. Though it won only 14 percent of the total vote and only five out of 68 seats in the Chamber of Deputies, it polled upwards of 40 percent of the votes in the main urban centers. FSB leadership is drawn mainly from middle class business and agricultural interests together with some discontented officers and ex-officers of the army. Its program calls for a de-emphasis of state intervention in the economy, reduction of labor's political influence, and re-establishment of the army as the main defense arm of the nation. We believe that the FSB would not hesitate to use force to seize power and to attempt the elimination of the MNR as a political force in the country.

24. The extreme right, which represents the old oligarchy of large-scale business interests, large landholders, and former high army officers, is organized in the small Republican Socialist Union Party (PURS). While many PURS members took advantage of the political amnesty granted by the MNR in early 1956, the party itself refused to participate in the June elections and many potential PURS votes probably were cast for the FSB. The PURS objective is to overthrow the MNR by subversion and violence and restore the pre-revolutionary order. Although it is well financed and organized, its capabilities are negligible because of its small following.

25. The Communists in Bolivia are split into two principal factions. Together they polled only 1.5 percent of the vote in the 1956 elections and have no representation in Congress. The orthodox Communist Party (PCB) has roughly 2,000 members, drawn mostly from middle class intellectual elements, particularly in the school system. The Revolutionary Workers Party (POR), a Trotskyite group with about 1,500 members, is strongest among urban white collar unions. The two parties present a common anti-US front on foreign policy, but the PCB follows a policy of conditional support for the MNR while the POR maintains an uncompromising opposition. The legal and subversive capabilities of both parties have been declining

over the past few years and are now very limited.[9]

26. MNR's attitude toward the Communists has undergone considerable change since the 1952 revolution. Initially, it accepted Communist support in its struggle for power, but once in power, and especially since the receipt of US aid after 1953, it has adopted an increasingly anti-Communist position. It has periodically harassed party newspapers and meetings. It has reduced but not eliminated Communist influence in the government and among agrarian elements. Among the trade unions Communist influence is now appreciable only in the Railroad Workers Confederation, the teachers' unions, and in certain other white collar unions. The MNR has not been able to diminish significantly the residual strength the Communists enjoy in the more articulate sectors of Bolivian society, particularly in the educational system.

Military and Para-Military Forces

27. The army, the bulwark of previous governments, was shattered by the 1952 revolution, but the MNR has rebuilt it to a considerable extent. Its present strength is about 11,000, including 6,000 one-year conscripts who receive little more than basic training. Its usable equipment consists largely of light infantry weapons, including machine guns and mortars, and a heterogeneous array of obsolescent light artillery. About one-third of the army is stationed in or near La Paz. These units contain the bulk of the better trained troops. The air force has 681 men, 57 of them pilots, and 43 aircraft, mostly trainers. Active support of the MNR within the armed forces is largely confined to the top officers who owe their appointments to the regime; the remaining personnel probably have no strong political leanings but are inclined toward the moderate section of the party. The armed forces want to see their own strength increased, MNR's political control over them reduced, and the function of the para-military forces limited.

28. The National Corps of Police and Carabineros is a military-type organization of 5,000 to 6,000. In contrast to the army, the Carabineros supported the 1952 MNR revolution and have maintained their structure and organization intact. The training and morale of the approximately 500-man officers corps are good by Bolivian standards, and the Carabineros' support of the MNR is probably firmer than that of the army. However, their capabilities are limited by the lack of formal training of the enlisted men, and

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[9] A group of "ex-Communists" including Edwin Moller, long a Trotskyite and now editor of the COB paper "Rebelion," joined the MNR in 1954. In the 1956 elections, Moller and five others of this group won seats in the lower house. Moller represents the MNR's extreme left and reportedly still maintains contact with the Trotskyites. [Footnote in the source text.]

lack of mobility, and their armament consists almost entirely of small arms. There is also a group known as Political Control, numbering about 600 which is closely associated with the Carabineros. This group was formerly a part of the Carabineros' organization but now appears to be directly responsible to the Minister of Government (Interior). Its primary function is to serve as political police and to control and harass opponents of the regime.

29. There is an armed civilian militia consisting of: (a) a security force of 1,500 composed of MNR units directly responsible to the party's National Political Committee, (b) a worker militia of about 10,000 organized on both union and federation levels, and (c) the Rural Police forces. The security force is the best organized and disciplined of the three. During the presidency of Paz, it was believed to be personally loyal to him; we do not know to what extent this loyalty has been transferred to Siles. The worker militia is theoretically organized into a hierarchical structure with a unified top command, but discipline in actual practice is extremely poor and primary loyalties are to local unions. In addition, the training and equipment of the worker militia are poor. The Rural Police forces are poorly trained and relatively few of them are armed. Though theoretically under the control of the Minister of Rural Affairs, in actual practice the local units display considerable autonomy.

30. The MNR originally assisted in the organization of the civilian militias in order to bring the armed portion of the populace under its control and to provide a counterweight to the army. Since mid-1955 the government has taken some steps to curb the civilian militia, while at the same time gradually increasing the size of the Carabineros and rebuilding the regular army. However, the objections of the left wing of the MNR have forced the government to proceed cautiously and slowly. In any event the MNR is determined not to allow the army to re-emerge as an independent force.

31. In the event of an attempted overthrow of the government from the right, the civilian militia would support the regime and would almost certainly be joined by enough elements of the army and Carabineros to insure the survival of the government. The outcome of a conflict resulting from a left-moderate split within the MNR is considerably more doubtful. For reasons of self-interest, if not of loyalty, the bulk of the army and the Carabineros would probably support the moderates against the large group of worker militia who would follow leftist leadership. Under present conditions, it is probable that the army and Carabineros combined could successfully defend the government against an attack by the militia alone, but any substantial defection from either army or Carabineros would make the outcome extremely doubtful.

III. Economic Situation

32. MNR's efforts to achieve domestic political stability have been complicated by Bolivia's serious short-range economic difficulties and the many obstacles to longer-range economic growth. The former have been intensified by inflationary policies. The latter is hampered by formidable obstacles to communication; low levels of technology, literacy, health, and living conditions; lack of investment capital; and the tendency of the Indian population to cling to traditional ways. The population is growing at the rate of 2.5 percent annually. Three-quarters are engaged in agriculture, which is mostly on a subsistence level, and the small amount of commercial agriculture is inadequate to meet the needs of the half million urban population and the quarter million in mining areas. Thus Bolivia has to import a large part of its food. Industrial development, aside from mining, is limited to a few simple processing and fabricating industries; it is retarded by the smallness of the local market, high transportation costs, and the inadequacy of domestic raw materials and fuels. Thus such demand as exists for manufactured goods must also be satisfied from abroad. Under these conditions, Bolivia's economy is largely dependent upon mineral exports, mostly tin, antimony, and tungsten, with tin exports supplying in recent years about 70 percent of Bolivia's foreign exchange.

33. Chiefly because of the decline in tin output and rise in production costs at a time when post-Korean world tin prices were declining, Bolivia's export receipts dropped from $124.7 million in 1951 to $78.5 million in 1955. The MNR's nationalization of the tin corporations aggravated Bolivia's economic difficulties. The tin nationalization and land expropriation were politically inspired measures; their economic effect was to reduce the output of minerals and foodstuffs by reason of government inefficiency and maladministration and the lack of labor discipline. Tin output was also adversely affected by the declining content of the ore.

34. The erratic course of Bolivian agricultural production and the failure to close the gap between output and requirements have been due partly to expansion of subsistence farming at the expense of commercial agriculture, partly to the decision of the government to sell US food grants at prices which discouraged local farmers, and partly to illegal re-exports. Moreover, internal demand for foodstuffs continued to increase because of the growth of population and apparent increase in per capita consumption.

35. Thus Bolivia has had a continuous deficit in its balance of payments since 1952 and its foreign exchange holdings have been exhausted. At the same time inflation has accelerated. Despite the high costs of tin production, the government has been obliged to

continue this costly operation in order to pay for vital foodstuffs and other essential imports, while making up the price-cost differential by printing bolivianos. The continuing shortage of all types of consumer goods, including foodstuffs, and the MNR regime's inability to resist pressure for higher wages and prices also have contributed to the inflationary spiral. In two years, 1954–1955, the cost of living more than tripled and the total money supply increased from 16.6 billion bolivianos to 56.1 billion.

36. Emergency US aid beginning in November 1953 has enabled the MNR regime to meet its immediate foodstuff deficit and at least temporarily stave off collapse of the government. It also helped launch development projects designed to gradually reduce Bolivia's dependence on foreign aid, and helped create a favorable climate for foreign private investment. Of the $20 million US grant aid sent to Bolivia in 1955, the continuing foodstuff deficit absorbed two-thirds. Counterpart funds arising from this aid and an additional $6 million in US development aid provided financing for development projects. Since 1955, US private investment, especially in the petroleum industry has been emerging from the planning stage and promises to play a significant role in Bolivia's economic development. In most respects, however, Bolivia's economic problems—coping with inflation and developing agriculture, petroleum, and mineral resources other than tin—still await solution.

37. Agricultural development is the most essential element in MNR's long-range program of diversifying the economy and lessening Bolivia's dependence upon mineral exports. However, the farm population is slow in reorienting itself towards direct participation in the money economy. MNR attempts to reduce Bolivia's dependence upon agricultural imports by guaranteed prices for domestically produced foodstuffs have thus far failed. The guaranteed prices were originally set too low to provide an incentive to domestic producers, and this program has been further vitiated by the rapid inflation.

38. The government has undertaken on a fairly large scale expansion of agricultural activities in the Santa Cruz district where the social problems of older settled centers are not a limiting factor. The main problem is to settle farmers in this promising virgin area by both immigration and internal migration. A limited number of Okinawan and Japanese settlers have already come into the Santa Cruz district, and the MNR is welcoming additional immigrants. Internal migration is somewhat impeded by the difficulties inherent in adapting people from the high altitudes to the tropics. However, the government is proceeding on the long-range assumption that migration will be stimulated by the growing scarcity of subsistence land in the settled highland regions, coupled with favorable facilities for land acquisition in the southeast. The groundwork for making

the Santa Cruz area accessible to main food consuming centers has been laid with the completion of the Cochabamba–Santa Cruz highway. The region still requires the development of a network of secondary roads to serve as feeders to the main highway.

39. A more immediately promising prospect is the young and expanding petroleum industry, largely operated by the government petroleum corporation (YPFB). This industry has been relatively free of social and political pressures, and has recently welcomed foreign private capital both in exploration and exploitation. Output has risen gradually since 1952 to 7,360 barrels daily at the end of 1955. Proven reserves are now estimated at 50 million barrels, and estimated reserves are vastly greater. Since 1954, Bolivia has been virtually self-sufficient in petroleum products, and it is now exporting about $6 million worth of petroleum annually to neighboring countries. Foreign private capital, principally the Gulf Oil Corporation, is currently planning to expand Bolivia's export capacity by a stepped-up exploration and drilling program and by financing construction of a ten-inch pipeline to the Pacific Coast.

IV. Probable Domestic Developments

40. Bolivia's future political stability will depend greatly on the extent to which the government succeeds in solving the nation's economic problems. In the immediate future the government is not likely to solve the problem in the mining industry, despite the reorganization of the Bolivian Mining Corporation. Though encouraging progress has been made in the petroleum industry, it will take many years before this industry can make a major contribution to the economy's viability. However, while expansion of agricultural activity is not likely in the near future to be sufficiently large to enable the country to dispense altogether with continued food receipts from the US, a more appropriate domestic price policy would tend to reduce the need for such assistance.

41. We believe that the Siles regime will make some economic progress. This belief is based on the probability that the economic maladjustments resulting from the revolutionary upheaval have about run their course, on the promise of sizable foreign investment, on the impact of technical advice and assistance, and on the fact that the MNR appears more aware of the dangers of rapid inflation and more inclined to consider corrective measures.

42. The continuance of the MNR regime as a successful going concern will largely depend upon the leadership and activities of a few key men. The acknowledged leader of MNR is outgoing President Paz, but his appointment as Ambassador to Great Britain removes him from the local political scene, at least temporarily. President Siles, though respected as the leader of the "moderate"

faction, lacks Paz' economic and political skills and his personal popularity. Whether he will have a serious problem coping with an uncooperative "leftist" faction and/or a recalcitrant Congress will depend not only upon his own tact and skill, but also upon the actions of Vice President Chavez and COB head Lechin, both of whom are Marxist in thinking.

43. Although we believe that for reasons of political expediency and party unity Lechin will probably refrain from using his political power to unseat the Siles administration, he represents a latent threat to MNR stability and to continued dominance of its moderate faction. Lechin's political strength derives primarily from his direct control of the Mineworkers Federation and its militia. As Executive Secretary of the COB he exerts considerable influence over the other component unions of the Confederation. He is a member of the CPN and enjoys the personal support of many highly placed MNR members. Finally, as President of the Senate he may have acquired a new potential for exercising political influence. If Lechin felt that his power or freedom of political action were being seriously circumscribed either by design or by force of events, we believe that he would not hesitate to move against Siles.

44. We believe that neither the Communist parties to the left nor the FSB and PURS parties to the right are likely to develop sufficient strength to pose a serious challenge to the MNR during the next few years. However, we believe that both the Communists and the rightist parties possess sufficient potential to exploit the opportunities provided by a sustained deterioration of economic conditions, a failure in the longer-run to show economic improvement, or an open break between the leftist and moderate wings of the MNR.

45. Both the stability and the political orientation of the MNR regime will be strongly influenced by its efforts to control inflation and by the level of US assistance it receives over the next few years. If US aid remains adequate to meet Bolivian food import requirements and to contribute some financial support and technical assistance for economic development and stabilization programs, the government will probably continue its present policies and be able to maintain internal stability. Although the MNR could probably survive a significant reduction in US assistance for some time, accelerated inflation, economic stagnation, and increasing political instability would probably result. A total withdrawal of US assistance would almost certainly lead to adoption of more radical and nationalistic policies by the MNR, and would probably cause the repudiation of moderate MNR leadership and bring leftist MNR factions into power.

46. We cannot at present estimate the political course of Bolivia after the emergence of such a regime. The factors which would most directly condition the stability and the character of this or any successor government would be the political orientation and capability of the army and Carabineros, the cohesiveness of the left wing groups and their militias, the capabilities of the groups presently in opposition for uniting to provide leadership and political appeal, and the attitude of the US.

V. Trends in Foreign Relations

47. Since 1952, Bolivia's traditional concern for securing an outlet to the sea has been subordinated to the more urgent requirements for development of friendly relations with all neighbors in order to permit the consolidation and strengthening of the MNR revolution at home. This foreign policy reorientation has been accompanied by a small but developing network of economic ties. With neighboring Chile, Peru, Paraguay, and Brazil, the MNR regime has succeeded in strengthening both political cooperation and economic relations. However, Bolivia's ties with Argentina have been weakened by US replacement of Argentina as the chief supplier of Bolivia's food imports, by the emergence of a new government in Argentina basically unsympathetic to the MNR, and by the counterrevolutionary activities of rightist Bolivian exiles operating from northern Argentina.

48. The Bolivian government's policy toward the US is primarily determined by its desire for US economic support. The MNR's initial attitude toward the US was unfriendly since the political and economic climate of the revolution encouraged an "anti-imperialist" and anti-US line. With increasing realization of its own lack of capabilities to meet its long-range economic objectives, let alone immediate food requirements, the MNR regime, hoping for US assistance, began to reverse its stand. Since November 1953, when the US first granted emergency aid and development assistance, the MNR has shown greater willingness to follow a course advised by the US, including a recognition of the role of private capital in developing national resources. Since 1954, MNR officials have sought to convince the people that Bolivia's interests will best be served by cooperating with the US. In the UN and OAS, Bolivia, like the rest of Latin America, often diverges from the US position on economic, colonial, and racial questions, but the MNR regime has generally followed the US lead on important political issues. A major reduction in US aid would almost certainly strain US-Bolivian diplomatic relations and adversely affect Bolivia's political cooperation with the US.

49. Except for diplomatic and commercial ties with Czechoslovakia, Bolivia maintains only sporadic contacts with the Soviet Bloc. So far it has manifested little interest in strengthening its negligible economic ties with the Soviet Bloc, despite several overtures from that direction. Should the Bolivian government feel that the country's economic progress were being thwarted, either by deficient export earnings or inadequate US assistance, strong pressures would be generated within the MNR to develop and expand economic and other relations with the Bloc countries.[10]

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[10] A map showing the location of strategic mineral resources is appended to this estimate, but is not printed.

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271. Editorial Note

During September 1956, inflation in Bolivia soared, and there were portents of developing food shortages. On September 22, 2,000 persons staged a hunger demonstration in La Paz, and shortly thereafter organized attacks on the government newspaper, radio station, traffic police headquarters, and other government and MNR party installations, during which the newspaper and radio station were destroyed. Although the demonstration was organized by rightist opposition elements, especially the Bolivian Socialist Falange, there were indications that some of the violence was caused by members of the MNR left wing, which wished to force abandonment of President Siles' economic policies and a possible rapprochement between the President and the opposition. (Department of State, Central Files, 724.00/10–256 and 724.00(W)/10–556) The situation reached major political proportions when Juan Lechín resigned the Presidency of the Senate on September 27, in an attempt to force a vote of confidence and thus strengthen his position vis-à-vis Siles. The crisis was resolved and party unity maintained when Lechín withdrew his resignation on September 30. (*Ibid.*, 724.00(W)/9–2856 and 824.00/10–556)

272. Telegram From the Counselor of the Embassy in Bolivia (Gilmore) to the Department of State[1]

La Paz, September 28, 1956—7 a.m.

93. Events past few days have convinced me resignation Siles and assumption power either Chavez or Lechin may be imminent. Basis this conclusion is conflict between COB leaders and Siles over La Paz on expropriation and generally increased and aggressive interference of COB in affairs of presidency. Lechin reliably reported last night resigning presidency Senate, which Embassy believes will force vote of confidence to strengthen his position. . . . I consider it highly probable that left-wing, possibly Communist-dominated elements COB leadership may be spearheading anti-Siles moves behind Lechin front.

I suggest that if foregoing eventualities are to be forestalled the time has arrived to make categorical declaration US position. Accordingly I request authorization to inform Barrau, Siles, Nuflo Chavez, and Lechin simultaneously following:

1. US Government has noted growing evidence growth in Bolivia of de facto shadow government in form of COB.
2. US Government considers important sectors this shadow Government probably Communist-dominated.
3. US Government would view with grave concern any change in titular head GOB at this time since present government reflects expressed will Bolivian people in free elections and any probable alternative must reflect maneuvers special interest groups.
4. To forestall culmination probable Communist conspiracy within Bolivia, government should take immediate steps to pass strong anti-subversion laws and arrest and try . . . suspected Communists . . . .
5. Pending implementation foregoing condition US is suspending all FY 1956 and FY 1957 relief shipments.
6. Should there occur a change in GOB reflecting accession to power of shadow government now in evidence, US Government would feel obliged to initiate consultations through OAS pursuant Caracas Resolution Number 93.[2]

I reiterate that in my opinion time is of the essence. Although Siles undoubtedly still commands wide popular support he lacks organized and armed backers. If we are not to be confronted with a fait accompli which will make our future policy decisions more onerous we should act within next 24 hours.

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[1] Source: Department of State, Central Files, 724.00/9–2856. Secret; Niact. Ambassador Drew was in Washington for consultation September 17–29.

[2] Reference to Resolution XCIII, "Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism," approved on March 28, 1954, at the Tenth Inter-American Conference which met at Caracas, March 1–28, 1954. For text of the resolution, see *Tenth Inter-American Conference: Report of the Delegation of the United States of America with Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 156–158. For documentation on the conference, see *Foreign Relations*, 1952–1954, vol. IV, pp. 264 ff.

Gilmore

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273. Telegram From Secretary of State to the Embassy in Bolivia[1]

Washington, September 28, 1956—7:29 p.m.

96. Department agrees objectives of action recommended Embtel 93[2] but doubts whether prospects of success justify risks involved, including misinterpretation as intervention in internal Bolivian affairs. You may state following if approached by Bolivian leaders or if opportunity otherwise presented discuss problem with them.

(1) Department concerned over indications possible imminent change in Government but recognizes this internal Bolivian matter.

(2) Any changes would naturally require thorough evaluation in terms US policies.

FYI basic elements such evaluation would be (1) that communists or communist sympathizers do not participate in or have influence in government; and (2) that stabilization program be carried out.

Dulles

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[1] Source: Department of State, Central Files, 724.00/9–2856. Secret; Niact. Drafted by Bernbaum, Briggs, and Siracusa and initialed by Rubottom.

[2] *Supra.*

274. Telegram From the Acting Secretary of State to the Embassy in Bolivia[1]

Washington, October 12, 1956—6:55 p.m.

112. Embdes 154.[2] . . . . increasing indications communist penetration left-wing MNR and COB and reported plans to increase militia arms (Weeka October 5[3]) suggest desirability now to clarify to all concerned bases US policy toward Bolivia. Since increased tension MNR moderate and leftist factions, to which communist agitation is probably contributing factor, could result in governmental change or dilution authority presently constituted government, such action this time seems particularly advisable.

Your discretion therefore take early occasion directly to induce understanding by key individuals in both factions MNR . . . while US does not take sides in Bolivia's domestic political affairs it cannot help but take most serious view of indications that communist influence in MNR left-wing and COB is increasing. Impress fact that our Bolivian policy rests on two elements and that any developments implying fundamental changes in or reduced authority of GOB will require evaluation of US policy in terms these elements: To receive US cooperation 1) government must be free from communist domination or influence and 2) it must be willing make determined effort achieve economic stability.

We believe emphasis on latter element fully as important as on first since long run success US policy toward Bolivia requires restoration of economic stability to provide foundation for democratic political stability and to reduce opportunity for fruitful communist agitation.

In these conversations the report that militia leaders and COB have demanded increased arms could be introduced to suggest our very serious concern over increased potential for disorder which such distribution would create, should arms fall into hands communist elements. In talk with Siles advantage could be taken opening afforded his statements communist growth COB and MNR left to suggest arms distribution not be undertaken without prior thorough survey possible communist penetration militia. Inform him also his suggestion assignment special Embassy officer cooperate anti-communist measures[4] receiving urgent consideration.

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[1] Source: Department of State, Central Files, 611.24/10–556. Secret. Drafted by Siracusa, Briggs, and Silberstein and initialed by Bernbaum.

[2] Not printed. (*Ibid.*)

[3] Transmitted in despatch 153 from La Paz, this Weeka reported that almost all units of the militia officially requested that their current ammunition supply be augmented significantly, that certain small arms be distributed where the supply was meager, and that regular weekly training periods in the theory and tactics of guerrilla warfare be initiated. (*Ibid.*, 724.00(W)/10–556)

At this time we prefer foregoing direct approach to key individuals over Siles' suggestion you make a press statement to effect US would not support communist-tainted government[5] since appearance open intervention could result especially in context present MNR left-moderate tension.

Hoover

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[4] Reference is to a suggestion made during a conversation with Siles on October 4, reported in Drew's memorandum of that date transmitted in despatch 154.

[5] Drew reported the following parting remarks in his conversation with Siles: "I reminded him of our long-standing compact that we were "partners'. I said that I not only wanted Bolivia to know that we were his friends and supporters, but that we would never continue our aid program to a Communist-tainted government. He asked me to say that to the press. I said I would think about it."

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275. Telegram From the Ambassador in Bolivia (Drew) to the Department of State[1]

La Paz, October 18, 1956—6 p.m.

111. In audience with President Siles afternoon October 18 I conveyed substance Department telegram 112.[2] He minimized seriousness left versus right conflict commenting it largely clash of personalities. He declined to be drawn out on resignations right wing Cabinet members reported by Barrau and in general was somewhat less than communicative. No information on reasons for or status of resignations which still not known to public, yet available.

. . . .

He expressed restrained approval of progress in stabilization program and optimism of left wing support on grounds "they had no alternative".

He denied government intends distribute arms to militia.

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[1] Source: Department of State, Central Files, 611.24/10–1856. Secret.

[2] *Supra.*

President's address to nation evening October 17 satisfactory our point of view. Will be reported fully by mail.[3]

Drew

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[3] Transmitted in despatch 182 from La Paz, October 20, were six copies of the complete text as published in *El Diario*, October 18. Gilmore also summarized the speech. Highlights included Siles' statement that the government faced two fundamental problems: defense against simultaneous attacks by the displaced reactionaries and extremist (Communists) and control of inflation. Victory for the reactionaries would mean the loss of the gains of the revolution; victory for the Communists would leave Bolivia isolated and defenseless. To control inflation, Bolivia must establish conditions permitting the continuation of American aid, that is, stabilization. Siles also asserted his position as spokesman for the entire party, saying that the Executive branch could not function if the Parliament did not support its stabilization program, and that the labor movement must "not extend its power into other spheres of activity which have their own independent political, economic and social functions" such as the Executive or Judicial branch. (Department of State, Central Files, 724.11/10–2056)

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276. Memorandum From the Operations Coordinator of the Office of the Under Secretary of State (Richards) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, November 21, 1956.

For your information, there is quoted below an excerpt from my preliminary and informal notes on the OCB meeting of November 21:

"Airlift for Bolivia

"The joint USOM–ISIS [*USIS*?] telegram No. 151, dated November 20, from the Embassy at La Paz transmitting the request of the President of Bolivia for an emergency airlift of food from Arica, Chile, to La Paz and Cochabamba, Bolivia, was considered by the Board.[2] Mr. Spencer King of ARA reviewed the problem briefly for the Board and stated that the proposed airlift was intended to support the U.S.-sponsored stabilization program to be inaugurated on December 1. It was pointed out that there was not a serious shortage of food but a psychological impact was desired to support the stabilization program. It was felt by the Embassy that the airlift would reinforce confidence in the Bolivian Government. Mr. Gray reported that to move the quantity of foodstuffs suggested would require 12 or 13 C–54's and would cost $200,000. He stated that Defense had no money for this purpose but would consider the proposal sympathetically if reimbursed and if told that the project had high priority from a political or psychological point of view. It was generally agreed that neither of these two conditions could be met. Mr. MacArthur thereupon suggested that a much smaller airlift might be provided by U.S. planes in the area. Mr. Hollister remarked that the purpose of the airlift seemed to be to bolster the Bolivian Government, therefore he questioned the wisdom of the airlift being provided by the U.S. It would be better if the Bolivians themselves provide the airlift and thus get the credit. Mr. King reported on the number of Bolivian aircraft available and doubt was expressed as to whether these were adequate for the job. It was agreed that the working group should take another look at the problem; come up with specific recommendations based on the discussion at the OCB meeting; and clear instructions to the Embassy at La Paz with the various principals attending the OCB meeting."[3]

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[1] Source: Department of State, ARA Special Assistant's Files: Lot 58 D 749, Bolivia. Secret.

[2] On November 17, Siles requested the airlift, and on November 20, Drew telegraphed the Department asking for consideration of the proposal. (*Ibid.*, Central Files, 824.03/11–2056)

ALR

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[3] Telegram 146 to La Paz, November 23, reported that the Department believed the proposed U.S. airlift was not necessary to develop support for the stabilization program. It also instructed the Embassy to inform Siles that a possibility existed that such an airlift would be "counter-productive in that it might be interpreted as indication supply situation much worse than it actually is," and that a Bolivian effort via rail or its own aircraft would derive maximum benefits. (*Ibid.*) On November 26 Drew informed Siles of the decision and reported that the Bolivian President expressed appreciation of the consideration given his proposal and understanding of the reasons why it was not then feasible. (*Ibid.*, 824.03/11–2656)

277. Telegram From the Acting Secretary of State to the Embassy in Bolivia[1]

Washington, November 30, 1956.

157. IMF yesterday approved exchange and stabilization plans presented by its mission as well as standby financing of up to $7.5 million. No public announcement for present but GOB officials here informed and of course all official communications to GOB on IMF decision will be via Eder and Antezana.[2]

Treasury will negotiate exchange agreement for $5 million. ICA will provide $10 million for stabilization, principally in form purchase authorizations for GOB imports in public sector. These funds will come from regular $20 million aid appropriation.

As part stabilization arrangements Inter-Agency Committee[3] has approved offer of Title I PL 480 program in approximate amount $6,750,000 including: 40,000 MT wheat, value $3 million; 15,000 MT flour, value $1.75 million; 900 MT edible oils, value $350,000; 1,000 MT lard, value $370,000. Balance of commodity composition still undetermined. This program supplements $9.7 million ICA funds committed and to be committed and is in lieu further ICA food imports.

You may now inform GOB of above arrangements as basis inquiry whether Congressional approval required PL 480 agreement and where most expeditious negotiate and sign.

FYI Eder still negotiating NY banks for additional $2.5 or $5 million, planning stabilization move Dec. 8. End FYI.

Will advise when public announcement stabilization package planned.

Hoover

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[1] Source: Department of State, Central Files, 824.10/11–3056. Confidential. Drafted by Briggs and initialed by Bernbaum.

[2] Franklin Antezana Paz, President of the Central Bank of Bolivia.

[3] The committee consisted of representatives from the Departments of Agriculture, the Treasury, and State, and IMF and ICA.

278. Minutes of the 253d Meeting of the National Advisory Council on International Monetary and Financial Problems, Washington, December 7, 1956[1]

[PARTICIPANTS]

Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
  Mr. George H. Willis
  Mr. Elting Arnold
  Mr. Philip P. Schaffner
Mr. Thorsten V. Kalijarvi, State Department
  Mr. John Parke Young
  Mr. E. A. Lister
Mr. Marshall M. Smith, Commerce Department
  Mr. Clarence I. Blau
  Mr. William R. Hayden
Mr. Wm. McC. Martin, Jr., Board of Governors, Federal Reserve System
  Mr. Arthur W. Marget
  Mr. Samuel I. Katz
Mr. Lynn U. Stambaugh, Export-Import Bank
  Mr. George Blowers
  Mr. Charles Shohan
Mr. Walter Schaefer, International Cooperation Administration
  Mr. Hale T. Shenefield
Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. John S. Hooker, International Bank
Mr. Oscar Zaglits, Department of Agriculture, Visitor
Mr. Edmond C. Hutchinson, Bureau of the Budget, Visitor
Mr. Henry J. Bittermann, Acting Secretary
  Mr. C.L. Callander, NAC Secretariat

1. Bolivia—IMF Stand-By Arrangement and U.S. Stabilization Agreement

The Chairman informed the Council that a problem had arisen with respect to the Bolivian stabilization program, and asked Mr. Willis to explain the matter. Mr. Willis informed the Council that the Bolivian representatives had apparently been unable to obtain assurances of credit from New York commercial banks, so that the $5 million which had been hoped for from this source would have to be obtained from some other source if the $25 million stabilization fund was to be realized (see NAC Document No. 2019,[2] Staff Committee Minutes No. 501 and NAC Action No. 942[3]). On the assumption that $7.5 million would be available from the International Monetary Fund and $10 million from the International Cooperation Administration, the question was whether the Treasury should increase the amount of the United States-Bolivian Stabilization Agreement from $5 million (as approved in NAC Action No. 942) to $7.5 million so as to reach the total amount of $25 million.

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[1] Source: Department of State, NAC Files: Lot 60 D 137, Minutes. For National Advisory Council Use Only.

[2] Not printed.

[3] On November 21 the NAC approved consideration by the U.S. Treasury of the Bolivian Government's request for a U.S.-Bolivian Stabilization Agreement of not more than $5 million. (Department of State, NAC Files: Lot 60 D 137, Staff Committee Minutes and Documents) For further information, see U.S. Treasury, (Continued)

The Chairman commented on the Bolivian situation, emphasizing the psychological importance to the stabilization effort of reaching the round $25 million figure, and indicated that the Treasury Department was willing to increase its commitment to $7.5 million. Mr. Schaefer reported that the International Cooperation Administration would be able to make $10 million available, and Mr. Southard reported that a $7.5 million stand-by arrangement had been approved by the Fund. After a brief further discussion the Council agreed that the Treasury Department might increase its commitment to $7.5 million. The following action was taken (NAC Action No. 949):

"National Advisory Council Action No. 942 is hereby amended to read as follows:

"1. The National Advisory Council advises the U.S. Executive Director of the International Monetary Fund that it approves his favorable consideration in the Executive Board of the Fund of the Bolivian Government's request for a stand-by arrangement permitting drawings up to $7.5 million.

"2. The National Advisory Council approves favorable consideration by the U.S. Treasury Department of the Bolivian Government's request for a United States-Bolivian Stabilization Agreement in an amount of not more than $7.5 million, with a term of twelve months. It is understood that under the agreement a carrying charge of ¼ of 1 percent per annum would be applied against the undisbursed amount and that the interest rate would be either (a) 4 percent during the first year that any drawing remained outstanding and 5 percent thereafter or (b) 1 percent in excess of the discount rate of the Federal Reserve Bank of New York during the first year that any drawing remained outstanding and 2 percent in excess of such rate thereafter."

[Here follows discussion of unrelated matters.]

(Continued)

Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1957 (Washington, 1957).

279. Current Economic Developments[1]

Issue No. 509 *Washington, December 19, 1956.*

[Here follow reports unrelated to Bolivia.]

US Assists in Bolivian Currency Stabilization

On December 15 the five-month old Bolivian Government of Hernan Siles Zuaso announced a series of economic stabilization decrees to halt the serious inflation in Bolivia and to restore confidence in the boliviano. To support Bolivian stabilization efforts the International Monetary Fund has agreed to a one-year standby arrangement under which Bolivia may purchase foreign currencies from the Fund equivalent to US $7.5 million. Further important support for the stabilization effort will be provided by the US Treasury and ICA. The latter is making available $10 million of US aid to Bolivia to be used in support of the program, and a US Treasury exchange agreement provides that Bolivian authorities may request the US Exchange Stabilization Fund to purchase bolivianos up to an amount equivalent to $7.5 million.

Under the new stabilization program, President Siles is granted emergency powers by law to enter commitments to obtain stabilization loans and to take any measures necessary for economic stabilization such as those affecting monetary and fiscal problems, wages, banking, price control and regulation of public utilities. The program abolishes government controls as far as possible in the fields of exchange, imports, and prices, and envisages a single fluctuating exchange rate reflecting supply and demand forces. It is hoped that if the price of tin—Bolivia's major export—remains high and if mining, industrial and government workers accept the one-year wage freeze provided in the plan, the Bolivian economy may respond favorably to realistic prices and a realistic exchange rate.

[Here follows a history of the Bolivian economic situation.]

Stabilization Program President Siles early announced his determination to carry out comprehensive stabilization measures, despite opposition from both conservative and leftist elements. The program was prepared by the Bolivian National Monetary Stabilization Council headed by Siles and aided by three US financial advisors[2] and in consultation with a recent IMF mission to Bolivia.[3] Under the program, a new fluctuating unified exchange rate will apply to all transactions, replacing the present multiple exchange system. New simplified arrangements will apply to exports and imports. Private imports will be subject to no restriction except the new customs tariff.

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[1] Source: Department of State, *Current Economic Developments:* Lot 70 D 467. Confidential.

[2] Along with George Eder, Ernest O. Moore and Roger R. Freeman were serving through the ICA as financial advisers to the Bolivian Government. Moore had 35 years experience in commercial and central banking, including 20 with the Federal Reserve Bank of New York, 5 with the Bank for International Settlements in Basle, (Continued)

A second series of measures concerns the adjustments in the prices charged and the costs incurred by the autonomous agencies, in order to eliminate their operating deficits. The Mining Corporation, the Mining Bank, the Petroleum Corporation and the Development Corporation have all submitted their 1957 budgets to the Stabilization Council, which has approved them and has suggested some major institutional reforms.

In the sector of government finance, the budget will be a comprehensive one including all the deficits of the autonomous agencies, contributions to various organizations previously entitled to the proceeds of special earmarked taxes, and US aid counterpart projects. Also the Government will pay the prevailing rate of exchange rather than the previous 190 rate. Wage and salary increases are taken into account. The Government will, however, continue the employment freeze in civil service positions begun in 1956. Expenditures other than wages and salaries will be reduced to operating costs and capital expenditures of all types are to be sharply reduced or postponed. Control over expenditures will now be exercised before rather than after contractual obligations are made. The principal sources of new tax revenue for the 1957 budget will be a new royalty tax on mineral production, a new customs tariff, a new tax on petroleum products and a general sales tax. The administration of income taxes will be improved. Local currency proceeds of US aid during 1957 will be used directly or indirectly, where necessary and possible, to cover projects for which revenue under the budget is not available.

A number of measures will be taken with regard to price and rent control policies. Among the most important are the elimination of price control and revision of public utility rates. Goods supplied under the US aid program are to be sold at domestic currency prices which cover the world market price of imports at the free market exchange rate plus the costs of distribution.

(Continued)

and 3 as financial adviser to the Government of Haiti. Freeman was a tax expert who had been an adviser to the State of Washington, assisting in the reorganization of the State's tax administration.

[3] The mission was headed by Dr. Gesualdo A. Costanzo, former economist of the U.S Department of the Treasury and chief architect of the Greek stabilization plan of 1947. The mission arrived October 13 and departed November 16.

Bank credit will continue to be controlled and existing deposits of the commercial banks will be frozen and released only in the event of a decline in deposits and in accordance with new specified rules. New reserve requirements will come into force along with a new maximum ratio of deposits to capital and reserves. Other decrees will concern government and agency accounts, reports to the Central Bank by commercial banks, rediscounts, etc. Adjustments will also be made in the wage and social security policies, which have contributed to the inflation problem.

An important part of the stabilization program is the exchange budget, the primary purposes of which are to limit the imports of the government sector, thus leaving a larger role for private importers, and to bring exchange expenditures in line with foreign exchange earnings. One of the problems in connection with the exchange budget was that of bilateral trade and payments agreements. These agreements have been regarded by Bolivia as a temporary expedient, however, made necessary in some cases by petroleum marketing difficulties. They are expected to become less important in the future, particularly with the completion of the construction of the proposed pipeline to the Pacific.

As a part of the effort to restore its financial standing, Bolivia has reached a tentative agreement with the Foreign Bondholders Protective Council to resume modest service payments on its dollar bonds of about $55 million in principal amount which have been in default since 1931.

Stabilization Fund Assistance To assist in the stabilization program from the exchange aspect, the IMF has agreed to an arrangement under which Bolivia may purchase foreign currencies from the Fund equivalent to US $7.5 million. The Treasury Exchange agreement allows purchase up to another $7.5 million should the occasion for such purchases arise and only after the IMF fund is fully drawn. Bolivia would subsequently repurchase for dollars any bolivianos so acquired by Treasury.

The ICA assistance amounts to making available $10 million in its bilateral aid program with Bolivia to assist in the stabilization program. This assistance comes from part of the ICA regular program for financing imports. The contribution may, however, be used in part for the purchase of commodities essential to the stabilization program under specified procedures and if funds are not appropriately available from other foreign exchange holdings of the Bolivian Government. Part of the imports of foodstuffs which would have been financed through regular ICA assistance is expected to be replaced through sales from surplus stocks under a PL 480 Title I program totalling $6.75 million in commodities, principally wheat and wheat flour with additional quantities of dairy products, edible oils and lard now ready for negotiation.

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280. Telegram From the Ambassador in Bolivia (Drew) to the Department of State[1]

La Paz, December 19, 1956.

207. Embassy telegram 205.[2] President Siles sent for me evening Dec 18 to express serious concern with initial reactions stabilization. Appeared particularly disturbed by Lechin's attitude that program proving prejudicial interests laboring class and he could not continue support program.

President urged me recommend increase in stabilization fund and establish lower rate. I gave him no encouragement and subsequently sent word through FonMin that after consulting Eder, Moore, Embassy staff, et al, attitude of continuing firmness in support stabilization program was felt to relieve situation.

FonMin confirms reports from other sources that group left wing deputies interpolated govt on stabilization afternoon Dec 18. Cabinet unwilling participate debate has submitted resignation. Barrau expressed confidence Siles will not resign as reported other sources. Interpolation described by Barrau as representing culmination long preparation by group 14 left wing deputies aimed primarily at right wing Cabinet members. President meeting with group key deputies and members CPN and Cabinet standing by at palace. I urged Barrau reassure President our continuing moral support and endeavor stiffen his attitude in crisis.

Drew

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[1] Source: Department of State, Central Files, 824.10/12–1956. Secret; Niact.

[2] Telegram 205 from La Paz, December 18, reported that the immediate reaction to the inauguration of the stabilization program was an increase in food prices and riots in the markets. (*Ibid.*, 824.10/12–1856)

281. Telegram From the Secretary of State to the Embassy in Bolivia[1]

Washington, December 19, 1956—7 p.m.

178. Encourage President to face initial adverse reaction with his characteristic courage and ride through this crisis. Present exaggerated prices reflect scarcity of supply which will tend to decline as products move to markets. Working classes naturally shocked since their wage increases have not yet been received and prices have not yet settled down.

Agree with your reassurance to President our earnest desire to give him every possible assistance in this situation but Bolivians themselves must face issue. Our position re necessity of proceeding with stabilization program as planned would be the same whether Siles or left wing heads government. As you emphasized to Siles and Lechin, departure Siles would not change criteria and would solve no problems this regard.

1. Suggest use of government transport if necessary to move goods.

2. Basic principle of world market prices for essential goods should continue. Suggest considerably lower price for bread (enforced by price control if necessary) to be financed by budget subsidy. Although kerosene probably not significant in cost of living, subsidization of this item might also be considered if important in quieting general public reaction.

3. Suggest all available means be used to supply meat to cities but warn against subsidy since present prices appear reflect scarcities.

4. Concerning exchange system, proceed as planned. Separate ICA telegram on support follows. Please report daily.

Dulles

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[1] Source: Department of State, Central Files, 824.00/12–1956. Secret; Niact. Drafted and initialed by Turkel.

282. Telegram From the Secretary of State to the Embassy in Bolivia[1]

Washington, December 20, 1956—10:37 p.m.

179. . . . meeting scheduled COB Dec. 21 at which Lechin may attack Eder and program. If confirmed, Department suggests Ambassador urge Siles summon Lechin and top COB cohorts including Torres to reiterate to them that, according objective views of those interested in Bolivia in US, their country's economic stability depends on effective implementation present program. We recognize some changes may be called for as program moves ahead but essence remains same. They should recognize that economic problems there so grave they can be solved only by drastic measures, and disciplined acceptance such measures must be their watchword. If they do not support program, can hardly expect workers do so. Lechin and COB had opportunity consider program before its announcement and they should cooperate in this first phase which naturally is most difficult because of shock of impact. Failure by them to cooperate can of course deal program severe if not mortal blow, but they should be under no illusion as to effect in US of their withdrawal of support.

Dept. hopeful concessions approved Dec. 19 message[2] as in case bread subsidy will help improve climate. Dept. prepared consider recommendations of Embassy and Mission if any further steps might be taken now to rectify any obvious inequities which inadvertently have appeared in program. Recommend Ambassador make perfectly clear to Siles and Lechin that any open attack on program and/or Eder at meeting 21 Dec. would be wholly counterproductive. No economic program of proportion now required in Bolivia could be expected to produce desired results in five days. More time is required for natural adjustments to take place and for corrective measures as required to be applied.

Believe best tactic is to continue concentrate on main issues of continuation program and freedom of government from communism. Embassy's continued emphasis on these prerequisites to continued US aid regardless of who President should be equally effective in keeping Siles in power as would making Presidency itself the issue. Therefore, especially important for Ambassador to ensure that Lechin and COB as well as Siles understand prerequisites continued US support.

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[1] Source: Department of State, Central Files, 824.00/12–2256. Secret; Niact. Drafted and initialed by Rubottom.

[2] *Supra.*

Department planning take same line in discussion to be arranged with Chavez Fri morning in NY if he available.

Dulles

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283. Telegram From the Ambassador in Bolivia (Drew) to the Department of State[1]

La Paz, December 21, 1956—8 p.m.

220. At meeting with President Siles afternoon December 21 conveyed substance Department telegram 179.[2] He was in relaxed confident mood and reasonably reassuring re attitude he expected Lechin take at COB meeting evening same day but in my presence sent for Press Under Secretary Tamayo and MNR Secretary Cuadros Quiroga to transmit my sentiments to Lechin. He outlined long talks held same day with leaders key syndicates including construction, factory, railway, etc. During which he explained at length US interest in success stabilization program.

Conversation interrupted when Siles proceeded to palace balcony to greet last contingent volunteer chauffeurs convoy returning from Mollendo loaded with American flour. This dramatic gesture while largely psychological very effective in bolstering public morale.

President referred to disorders in principal nationalized mines which now appear calm. He is sending for group from Catavi to discuss stabilization.

We agreed public acceptance stabilization greatly improved since our midnight meeting December 18.

President enthusiastic about our intention talk to Chavez in New York. He described Chavez as brilliant impractical theorist who has been a severe critic stabilization. I urge we continue as appropriate high-level informal talks with Chavez in hopes bring him into line.

Re cabinet crisis President indicated would reject resignation Minister Agriculture and Party Secretary Cuadros whom he referred to as his right arm although other minor changes including Minister Health[3] may be necessary. He belittled proposed interpolation of left-wing Deputies saying he had summoned them for curtain lecture asking why signature of FSB leaders Bilbao and Unzaga not included. Congress recessing December 22 to January 15 approved 90-day extension state of siege.

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[1] Source: Department of State, Central Files, 824.10/12–2156. Confidential; Priority.

[2] *Supra.*

[3] Juan Manuel Aramayo.

President expressed deep appreciation for our support as conveyed by me in presence of Lechin December 18 meeting implying it was key factor enabling him weather crisis and remain in office.

Despite probable critical discussions stabilization at COB meetings course next few days I am reasonably confident we are over the hump even though certain adjustments such as suggested by Department may prove necessary.

Drew

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284. Telegram From the Secretary of State to the Embassy in Bolivia[1]

Washington, December 22, 1956—3:56 p.m.

182. Your 220 Dec. 21 reassuring. In New York talk Friday afternoon Chavez similarly relaxed. He had just come from seeing Paz Estenssoro off to London and indicated complete support for stabilization plan. He predicted that COB would not attack stabilization but would ask for higher wages. Chavez said did not like subsidies any more than unrealistic exchange rates. He feels 1300 general increase and 3950 to compensate miners for loss of commissaries inadequate. Unconcerned by miners seizure of commissaries. He indicated complete agreement with both elements of basic US position.

Obvious that Chavez is in very close touch with situation and appears he will cause no trouble at least for present.

Encourage Siles to hold fast on wages. Wage price spiral cannot be broken if Govt gives way at beginning. Will send further guidance on this point after consulting with other Departments after Christmas.

In daily financial report useful have more analysis purchase and sale foreign exchange.

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[1] Source: Department of State, Central Files, 824.10/12–2156. Confidential; Priority. Drafted by Turkel and initialed by Rubottom.

While not yet out of woods Department congratulates you on well done job.

Dulles

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285. Memorandum of Conversations, La Paz, April 1957[1]

PARTICIPANTS

The Ambassador
Mr. Gilmore, Embassy
Mr. Eder (USOM), Stabilization Council
Mr. Shields, Embassy

SUBJECT

Stabilization Council Deliberations, April 2, 1957

Mr. Eder reported as follows:

I. Bolivia's Proposal for Increased U.S. Aid

The President stated that the only solution he could envisage for Bolivia's immediate problems is increased U.S. aid (see despatch 484[2]). He said that he had an "absolute promise" from Ambassador Drew of a substantial increase in aid and that this promise had been confirmed by Mr. Roland Atwood of the General Collins' mission.[3] He also asserted that USOM/B Director Ross Moore had made an "absolute promise" of additional aid for supervised credit operations.

Comment: The "absolute promises" to which the President refers were never given or implied. As nearly as past conversations can be recalled and reconstructed by the Ambassador, Mr. Moore and those in attendance at the Collins' conferences, the facts are these:

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[1] Source: Department of State, Central Files, 824.10/4–857. Confidential. Drafted by Shields, First Secretary of the Embassy in Bolivia. Transmitted in despatch 580 from La Paz, April 8, 1957. (*Ibid.*, 824.10/4–857)

[2] Despatch 484 enclosed a memorandum on supplementary aid that President Siles handed to Ambassador Drew on March 1. (*Ibid.*, 824.00–TA/3–557)

[3] Reference is to the Subcommittee of the President's Citizens Advisers on the Mutual Security Program, which visited Bolivia February 15–17. The committee included General J. Lawton Collins, Special Ambassador from President Eisenhower to Bolivia, and chairman; and John C. Hughes, former Ambassador to NATO. Atwood; Turkel; Colonel Thomas B. Hanford, International Security Affairs, Department of Defense; and William R. Dalton, Liaison Officer, Department of State, accompanied the Subcommittee. The visit was to study the U.S. technical assistance, economic development, and military programs in Bolivia and to confer with Bolivian officials. Documentation is *ibid.*, 033.1100/2–1957.

(1) The Ambassador upon being handed the President's proposals, stated that our government would consider it.

(2) Mr. Atwood stated that any of President Siles' proposals would receive consideration by our government which, as has been demonstrated, is mindful of Bolivia's problems.[4]

(3) Mr. Moore has on occasion referred to the channeling of existing ICA stabilization funds into supervised credit operations (see despatch 561[5]) but has never spoken of or implied the possibility of additional assistance funds.

Mr. Eder states that, on the basis of his experience, President Siles tends to consider his proposals accepted unless they meet with a prompt and unequivocal rejection.

II. The Wage Outlook

The President stated that he wishes to have a consideration of the general economic outlook at an early meeting since he was not certain for how long the wage freeze could be held. He added that the exchange rate must be kept at or below its present level, come what may.

Mr. Eder observed that if the exchange rate were to be held down while wages were increased, one or both of the following would be essential: (a) a reduction in the employer's social security contributions from the present 30% to, say, 10%; (b) an authorization to employers to dismiss employees with impunity. While the latter would mean unemployment, it would of course be cheaper to provide work relief for the unemployed than to continue fulltime wage payments to employees which are surplus to their employers' requirements.

Foreign Bondholders Agreement Mr. Eder reported on a recent conversation with Stabilization Council member Gisbert.[6] Mr. Gisbert stated that Vice President Nuflo Chavez, whose intervention has blocked the implementation of the agreement reached last December between Mr. Gisbert and the Foreign Bondholders Protective Council,[7] is likely to propose an alternative plan. He reports that, while in the United States, Chavez was approached by a Mr. Dowson, (?) who offered to buy up $7,000,000 of Bolivian bonds on the open market for $2,000,000, following which Bolivia could presumably carry out the agreement with the bondholders at a considerably reduced cost.

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[4] Despatch 456 from La Paz, February 21, transmitted a memorandum of the conference of February 16 with President Siles on the need for expanded aid. (*Ibid.*, 824.00–TA/2–2157)

[5] Despatch 561 from La Paz, March 29, transmitted a memorandum of a conversation summarizing the deliberations of the Bolivian National Stabilization Council on March 26 and 27. (*Ibid.*, 824.03/3–2957)

[6] Miguel Gisbert Nogué, vice-president and chief executive of the Bolivian National Planning and Coordination Commission.

[7] Final agreement with the Foreign Bondholders Protection Council was reached on June 6. (Department of State, Central Files, 824.10/6–657)

Mr. Eder observed that, in addition to this plan being immoral, it would constitute the worst possible type of public relations at just the time that Bolivia hopes to attract investment capital; that the obvious reaction in the U.S. would be that if Bolivia had $2 million available, it should be used for interest payments. In addition the $2 million figure may be high in terms of current bid ask prices.

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286. Telegram From the Ambassador in Bolivia (Bonsal) to the Department of State[1]

La Paz, May 2, 1957—5 p.m.

423. I have just paid informal call on President Siles at his request. Eder was present. President reviewed current situation affecting meeting wage freeze and need for additional US aid along lines familiar to Department. He expressed serious concern communist infiltration and degree to which communist pressure forcing MNR labor leaders to take extreme positions. He stated COB conference end this month would represent critical time. He stressed need for wage adjustment which would restore real wages of labor to pre-stabilization levels. He indicated that while prices have indeed dropped on articles of prime necessity since stabilization, and great majority of people better off, 100,000 heads of families who had been deprived of subsidized store goods are considerably worse off than before stabilization and these elements are those which have political social influence.

President emphasized great opportunity for successful anti-communist policy by the US if aid to Bolivia could be supplemented. He referred to memorandum handed Ambassador Drew some weeks ago and gave impression he felt he had commitment of additional aid from Drew and Atwood.

In reply I was brief, friendly and non-committal. I referred to Washington situation surrounding FY 58 aid programs and to shortcomings on Bolivian side including particularly failure deposit proceeds grant food deliveries. I told President I would consider carefully what he had said and look forward early opportunity further discussion. He indicated Foreign Minister's reports from Washington not particularly hopeful.

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[1] Source: Department of State, Central Files, 824.10/5–257. Confidential.

Bonsal

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287. Memorandum of a Conversation, Department of State, Washington, May 9, 1957[1]

SUBJECT

Current Bolivian Problems

PARTICIPANTS

Bolivian Foreign Minister Manuel Barrau
First Secretary of Bolivian Embassy Mario A. Montenegro
ARA—Mr. Rubottom
REA—Mr. Turkel
OSA—Mr. Bernbaum
OSA—Mr. Briggs

The Minister said that he had just received an urgent message asking him to mention to the Department several shipments of tungsten which have been made to GSA and which are below specifications. He said that the Bolivian Government, in order to speed payment for these shipments, would be willing to pay the costs of treatment necessary to remove the impurities from the material and thus bring it up to standard. He asked that the Department take the matter up with GSA in an effort to hasten a solution, in view of the immediate need of the GOB for the funds involved. Mr. Briggs replied that he had learned of the matter earlier that day and had already been in contact with GSA. He added that he would follow up this matter.

Mr. Rubottom mentioned Bolivia's participation in the OAS Committee dealing with the Honduras–Nicaragua dispute[2] and asked whether the GOB might be able to detail two of its military officers, perhaps from Panama, to serve on the military advisor group. Minister Barrau said that several Bolivian officers are taking a U.S. Army training course in Panama and that he felt it would be possible to detail two of them.

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[1] Source: Department of State, Central Files, 824.10/5–957. Confidential. Drafted by William T. Briggs.

[2] A long-standing border dispute was revived in early 1957 when Honduras established a new province which included some territory claimed by Nicaragua. Documentation is *ibid.*, 615.17.

The Minister said that he would leave for New York May 10 for a meeting with representatives of the Foreign Bondholders Protective Council,[3] at which time he hopes to effect a settlement with the Council. He added that only a minor technical point remains to be ironed out in these negotiations. On May 11, he added, he plans to leave New York for La Paz.

Mr. Rubottom asked for the Minister's opinions on the current situation in Bolivia and the latter gave a brief résumé of the stabilization picture, emphasizing difficulties suffered by business and industry through the loss of markets and difficulty of obtaining capital. He said that in respect to deposits of local currency for U.S. aid commodities he had just received a cable stating that investigations by the GOB have shown that the chief difficulty seems to be that aid commodities are not moving at retail and that consequently distributors are overstocked with goods but have not funds available for deposit. He said that the total outstanding is approximately thirty-two billion bolivianos and that efforts are being made by the GOB and USOM to stimulate sales and consequent deposits. Mr. Rubottom pointed out the extreme importance of these funds for budget support purposes, as well as for the initiation of the President's supervised credit program.

Mr. Rubottom then asked whether labor and its leaders are cooperating with and supporting the President in his stabilization effort. The Minister replied that the situation is difficult because prices have not declined as much as had been hoped and the workers have suffered a loss of real wages as well as increasing unemployment. Mr. Rubottom wondered if much of the difficulty might not be due to the extremely heavy Social Security charges (35% of payroll) and to the inability of employers to discharge excess workers. The Minister assented, but said that some progress had been made on the first of these points, inasmuch as when the stabilization program was begun, the Social Security charges were cut from their previous level of 102% to the present figure. He said that the Government has not felt it urgent to move rapidly ahead on the question of discharges because most industrial employers have large cushions in the form of extremely high profits made during the pre-stabilization period and are therefore not yet really suffering. He said, however, that the Government plans to attack both of these problems as the political situation permits.

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[3] In a telephone conversation on May 13, Kenneth M. Spang, President of the Foreign Bondholders Protective Council, discussed the outcome of that meeting with Hamlin Robinson. Robinson's memorandum of the conversation reported that Spang told him that Barrau was primarily concerned that Bolivia should have the right to retire its bonds through cash purchases after service was resumed. Spang assured him that this would be the case. (*Ibid.*, 824.10/5–1357)

He then mentioned the demands of the construction workers for increased compensation, saying that the amount requested is only approximately 6¢ U.S. per day per worker and that the construction workers are probably the lowest paid group in the economy. Mr. Turkel pointed to the fact that the majority of these workers are Government employees and that increased compensation for them would inevitably lead to similar demands from other Government workers, which in turn would have a serious effect on the budget which is already running a deficit. Mr. Bernbaum questioned whether it might not be advisable to undertake a study of the overall wage situation with a view to determining whether inequities exist as regards comparative wage levels and expressed the thought that perhaps to ILO, which has recently had a Mission in Bolivia,[4] might undertake such a study. Mr. Rubottom said that he was not sure that the ILO would be the best agency for the task and suggested that perhaps a competent technical firm might be more suitable. The Minister agreed with Mr. Rubottom, but said that the experiences of the GOB with the firm of Price, Waterhouse & Company[5] had not been particularly fruitful. He went into this matter in some detail.

The Minister reverted to the employment situation, saying that the mining corporation plans to reduce its force by approximately five thousand and is already working in this direction by refusing to fill vacancies caused by attrition. He added that the Government is following a similar policy and the Development Corporation has already made extensive cuts, but that reductions in force, both by the GOB and private business, have been badly hampered by the fact that, due to the virtual stagnation of the economy, there is nowhere for displaced workers to find new employment. He said that the operations of the Development Corporation are now virtually at a standstill and that development work throughout the country has practically ceased. He reiterated that this situation makes it difficult for the Government to take some of the necessary measures under the stabilization program and expressed the hope that, in addition to foreign private investments which are being sought by Bolivia and possible future loans from the World Bank, the U.S. Government would lend a sympathetic ear to Bolivia's needs.

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[4] The mission of the International Labor Organization was invited by the Bolivian Government, at the suggestion of the U.N. mission, for the purpose of studying wage-price relationships in Bolivia. The mission was headed by Sir Arthur Tyndall, an engineer, and, since 1940, Judge of the Court of Labor Arbitration in New Zealand. The mission arrived on January 15, and departed a month later. Documentation is *ibid.*, 398.06–ILO.

[5] An accounting firm from the United States engaged in 1957 to audit the books of the YPFB, the government oil company.

Mr. Briggs interjected that, as the Minister might have noted, the present atmosphere in the U.S. on the part of the public, as well as the Congress, is not conducive to optimism with respect to aid programs in general.

Mr. Rubottom remarked on his experiences in 1956 in defending the aid program before the Congress. He added that he considers it fortunate that this year he will have some definite progress to report to the Congress because of the stabilization program, but cautioned the Minister of the importance of the negotiations with the Bondholders Council and the Patiño group in this respect. He once more emphasized the importance of local currency deposits by the GOB, which he regarded as the key to the budgetary problem. He said further that Bolivia's needs for assistance would receive sympathetic consideration here.

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288. Memorandum of a Conversation Between President Siles Zuazo and the Ambassador in Bolivia (Bonsal), La Paz, June 1, 1957, 12:30 p.m.[1]

SUBJECTS

Government's Plans to Meet Demand for Wage Increase
The COB Convention
Rate of Exchange and Stabilization Fund
Status of Mining Industry
Advance Royalties from Oil Industry
Supervised Credit

President Siles received me at 12:30. We talked about an hour and a half.

Government's Plans to Meet Demand for Wage Increase

In part confirming and in part adding to what had been told me on May 29 by the Ministers of Foreign Affairs and of Finance,[2] the President described the Government's plans along the following lines:

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[1] Source: Department of State, Central Files, 824.00/6–357. Confidential. Drafted by Bonsal. Transmitted in despatch 738 from La Paz, June 3.

[2] The record of this conversation between Barrau; Hugo Moreno Cordova, Bolivian Minister of Finance; Ross Moore; and Bonsal on May 29, was transmitted in despatch 727 from La Paz, May 31. (*Ibid.*, 411.2441/5–3157)

(a) *Reduction in Prices of Petroleum Products*

A reduction at this time of about 50 Bolivianos per liter on the retail price of the major petroleum products is contemplated. At a later date a further 50 Bolivianos per liter might be cut from the prices. In the case of gasoline, currently priced at 400 Bolivianos per liter, this would mean a reduction of 12½% now and eventually 25% in total.

The President stated that YPFB is about the only profitable government agency and that it was therefore a highly delicate matter to take any step to affect its budget or to reduce its capacity for growth. He said it was highly important to maintain YPFB's ability to supply the domestic market and to expand. He said that he believed, however, that the $2 million in advance royalties which he anticipated from the new holders of the ex-McCarthy contract plus the $5 million in advance royalties to be anticipated from the successful bidder for the Madrejones tract (most probably Gulf but certainly another "solid" company, according to the President) would relieve YPFB from the necessity of financing its growth and development from earnings and would hence enable it to make the reductions on its sales prices indicated above.

(*Comment:* It is interesting to note that the President did not mention the renegotiation and extension of YPFB's supply contracts which had been indicated to me by the Foreign Minister as the basis for YPFB's proposed reduction in the sales price of its products, nor did the Foreign Minister allude to the possibility of advance royalties as mentioned by the President.)

(b) *Reduction in Food Prices*

The President has in mind that the reduction in fuel prices plus various reductions to be introduced in food prices and possibly the prices of other products might produce a net reduction of 5 to 7% in the cost of living. He was not too specific here and our exchange of views centered mainly around American food prices and distribution.

The President said that he would like to be able to sell more American food in Bolivia at lower prices and that he would also like to avoid the growing budgetary deficit which results from the differential between American billings and the returns obtained by the Bolivian Government. I said that I thought the price at which American food products are billed to the Bolivian Government is fixed by law.

The President and I agreed that a return to the subsidized prices of former years must be avoided. We also agreed, however, that Bolivian distributors could hardly be expected to dispose of American food products at prices which failed to take into account such current market conditions as the price of local products and of products imported from the Argentine. (Although I did not mention it to the President, it also appears that American exporters are able to put down American food products in Bolivia at prices below those currently billed by ICA.) The President is aware of the problems being encountered by

Bolivian distributors in certain areas in disposing of American products. I told the President, as I had the Ministers of Foreign Affairs and of Finance that I would be glad to look into this whole matter on the basis of specific information to be furnished by the Bolivian Government.

I took advantage of the opportunity to raise with the President the problem arising from the fact that many Bolivian distributors are much in arrears to the Bolivian Government for American products. I made clear to the President, as I had done on previous occasions that what we are worried about are not amounts representing inventories in the hands of distributors but amounts due on account of products which have long since reached the ultimate consumer. The President said he fully realized the implications of this matter, that he regarded it as of the same seriousness as the contraband problem which plagued us in past years and that he was squarely behind the efforts being made by the Minister of Economy[3] to bring these accounts up to date. The President was most emphatic on this point.

(c) *Increase in Wages*

The President contemplates a wage increase of about 10% of local payrolls to be concentrated mainly on wages of less than 200,000 Bolivianos (less than $27) monthly. This is to be financed through a reduction from 30% to 20% in the social security payments due, and in some cases paid, by employers. (Workers pay 7½%). The President went on to say that if this reduction is to be achieved, it would be important for the United States in some fashion to lend $2 million to the Social Security Authority to complete a number of hospitals which it would be unable to finance if the reduction goes into effect.

I told the President that I would, of course, convey to the proper people in Washington his views on this subject, but that I felt I could not encourage him to expect a favorable reply. I mentioned our current appropriations situation, the need to use such United States funds as are available above and beyond support of the Bolivian budget for immediately productive purposes and the further fact that a Social Security Institute enjoying 27½% of the local payroll should be able to finance what local circumstances would justify. We discussed this matter inconclusively for some time.

Summing up, the President said that the above measures should result in a 15% increase in the purchasing power of Bolivian employees and laborers. The Labor Federation at its forthcoming convention (June 1–June 10) will probably demand a flat 30% increase in wages.

The COB Convention

The President gave me some information about the speech he intends to make before the Convention on June 3. He will stress the need for sacrifice, belt-tightening and productivity. He will describe other revolutions, including the Chinese. I suggested he might also refer to the war effort of American labor as illustrative of how a great labor movement acts in time of national crisis. He said he would adopt this suggestion. I did not gather that he expects to include any definite proposals in this speech.

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[3] Jorge Tamayo Ramos.

The President said that we would hear "a lot of what the Argentines call 'blah-blah' " during the labor conference but that the important thing would be the conclusions reached. He said he thought they would be such that the Government could handle them with the program described above and they would not imply a break between the Government and labor. . . .

. . . .

The President's manner in discussing the situation was confident and assured.

Rate of Exchange and Stabilization Fund

I raised this problem with the President pointing out that in the past month there had been a net excess of demand for dollars over supply of more than $2 million and that during the last few days the rate of loss was apparently moving sharply upward. I referred to my conversations on this subject on May 29 with the Foreign Minister and the Finance Minister and of May 31 with the Finance Minister in which, without proposing any specific solution, I had expressed serious concern and had stated again the position of the contributors to the Fund in the sense of not using their money in a vain effort to peg a rate inconsistent with market conditions. I recalled to the President that my observations and those of Mr. Ross Moore of USOM on the subject had been made in connection with the Central Bank's request for an additional stabilization contribution of $500,000 from ICA upon which we had not yet found it possible to reach a decision.

The President said that he too was worried about this matter and was particularly concerned at anything which would further depreciate the Boliviano. He said that he was investigating the whole situation and would look forward to discussing it with me further on June 5.[4]

Status of Mining Industry

The President and I discussed the mining industry along familiar lines. He recognizes the need for some sort of a settlement with the former owners of the nationalized mines though he was highly critical of their attitude. He stated that at the same time the former owners are pressing for a maximum settlement they are doing everything in their power to see that Comibol gets no financial help from abroad. Without such help, it will not be possible to make a settlement. The President hopes IBRD will be able to help.

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[4] No record of this meeting has been found in Department of State files.

Advance Royalties from Oil

The President expressed a good deal of optimism about the possibility of advance royalties from the oil industry. He is apparently counting on $2 million from the new holders of the ex-McCarthy contract, $5 million from the successful bidder for the Madrejones tract (he expects it will be Gulf), and possibly other advances from Gulf and from the ex-McCarthy or Holland group. He is wondering whether it might not be possible in addition to get 7 million dollars from IBRD as financing for the proposed pipeline to Arica (to which Gulf is partly committed).

I did not feel called upon to comment on these various possibilities. I was struck by the fact that the President did not, in this connection, mention the various past due obligations which make the current financial situation of the Government, of the Central Bank and of Comibol among others so precarious.

Supervised Credit

The President stated that he expects shortly to set up the Institute of Supervised Credit. I said I hoped USOM would have some available funds for these general purposes but that this would of course depend on the rate of counterpart generation which in turn is largely dependent on collections by the Bolivian Government from distributors of United States aid foodstuffs.

Philip W. Bonsal

289. Memorandum From the Ambassador to Bolivia (Bonsal) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, June 26, 1957.

SUBJECT

Summary of Consultations in Washington

The purpose of this memorandum is to summarize very briefly the various discussions which I have had during my period of consultation here and to formulate certain recommendations.

Additional Aid Requested By President Siles

As I had anticipated and as I indicated to President Siles on June 13, there is apparently no immediate possibility of securing any additional aid to Bolivia because:

a. ICA believes aid already granted is not being made wholly effective due to delays in counterpart generation and in the development and submittal of projects for which aid is already available, to say nothing of those for which additional aid might be required, and

b. FY–1958 appropriations are not yet available.

Dr. FitzGerald has, however, agreed to permit us to use the $1,153,000 of uncommitted aid funds remaining in the FY–1957 appropriation as a cash grant to be used to purchase bolivianos from the Central Bank. I intend to tell President Siles that the bolivianos resulting from this $1,153,000 in funds previously uncommitted can serve as a basis for initiating the supervised credit program. We should be guided in part by USOM's planning but principally by President Siles' judgment in determining which projects should be given preferential treatment. I will say to President Siles that, in view of the fact that there are stocks of U.S. food and textiles in Bolivia sufficient for several months consumption, and in view of the further fact that considerable additional stocks of food are provided in the PL–480 agreement recently signed, it is evident that much of our FY–1958 program will be available for other than food imports, and that it is my hope that the program can concentrate on development purposes. This is important to combat criticism to the effect that stabilization has, in effect, meant a drastic reduction in economic activity. It is also important to expedite consideration especially by ICA/W and USOM of the FY–1958 program in the light of the Bolivian budget and balance of payments estimates for 1958.

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[1] Source: Department of State, Central Files, 611.24/6–2657. Confidential.

I am hopeful in this connection that you and others in the Department will find it possible, as you indicated it was your intention, to put together some sort of a "special package" which I can hand to President Siles in the relatively near future. Such a package should include an allocation from the Smathers fund for general health purposes (anti-smallpox campaign, medical education, hospital equipment, etc.).

Replies To Bolivian Memoranda

I require instructions regarding answers to be made, preferably in writing, (a) to the memorandum given me by President Siles on June 12 requesting additional aid of $10 million,[2] and (b) to Minister of Economy Tamayo's memorandum of June 6[3] regarding food collections and prices.[4]

PL–480 Program

The current PL–480 agreement should produce the equivalent of $3 million in bolivianos to be loaned to the private sector and $2.5 million in loans to the public sector. Although these funds will not actually be generated until well into 1958, it is most important that projects for their effective use be developed without delay. I am hoping that we can get from ICA energetic co-operation along these lines, including activation of the signature of the loan agreement, a draft of which is presumably in La Paz for comment. This agreement when approved will be signed by Ambassador Andrade on the one hand and by the Export-Import Bank acting as agent for ICA.[5] The Department can be most helpful in following up on this matter. (Mr. Briggs and Mr. Silberstein have agreed to prepare a check list and schedule of items to be covered in Washington and in La Paz.)

Prices At Which U.S. Aid Foodstuffs And Other Items Are Sold In Bolivia

This matter was extensively discussed with Dr. FitzGerald, and he expects to let me have some positive word prior to my departure. It is my intention to tell President Siles that, if in his judgment the prices at which U.S. aid items are currently being sold in Bolivia is hampering consumption of these goods in comparison to consumption of similar goods from other sources, and if he believes that a demand for dollars is being created for the importation of this type of goods from other than U.S. aid sources because prices are more attractive than those charged for U.S. grant aid items, then the Bolivian Government should without delay lower prices on U.S. items to levels consistent with local and international market conditions. I hope that we will be able to reduce U.S. billing levels also, but the main problem is that of current prices in Bolivia. This is a problem on which we may need the help of a marketing expert.

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[2] A memorandum of the conversation between Siles and Bonsal on June 12, regarding supplemental aid was transmitted in despatch 774 from La Paz, June 14. (*Ibid.*, 724.11/6–1457)

[3] Not printed.

[4] A marginal notation next to this paragraph reads: "We can't get clearance at this time for anything more than B. [Bonsal] has already told S. [Siles] & if we put into writing & clear it all around it will look less encour[aging] than his words."

[5] The agreement further amending the agricultural commodities agreement of June 7, 1957, was effected by an exchange of notes at La Paz, August 30, and entered into force on the same date. For text, see TIAS 3897.

Mining Situation

I have discussed with ICA and with the IBRD, the Export-Import Bank, and others the serious situation resulting from the decline in Bolivia's mining production, particularly in the nationalized sector. I have also discussed the status of negotiations between the Bolivian Government and the former owners of the nationalized mines. Although I have received no indication of any change in our present negative policy toward the nationalized mining industry, I hope that I have made the point that in the absence of improvement in the productivity of the Bolivian mining sector, all efforts to improve the Bolivian economy tend to be nullified. I think that we will have to continue working on the subject in order to find out whether there is not something which we can do to help Comibol to obtain working capital for a minimum of productive projects. For instance, the required $1.5 million for Catavi and Colquiri is most urgent. It will perhaps be obtained from private sources. We must also stress in the FY–1958 program projects designed to absorb miners who should be eliminated by the nationalized mines.

Negotiations With Former Mine Owners

I do not believe that, if left to their own devices, the former owners and the Bolivian Government will reach any agreement as to total compensation. The immediate situation with which we are confronted includes serious doubt as to whether the present rate of indemnification payments can be maintained. I can conceive of no method of arbitration satisfactory to both parties. A possibility which has been suggested would be for the Bolivian Government to address a formal request to the IBRD for advice as to the bases of a fair settlement. This possibility might be investigated by the Department at a high level in IBRD. Another possibility would be for the Department itself to take an active role in the matter and to indicate to the Bolivian Government and to the former owners an opinion as to what would constitute a fair settlement. Our influence in securing acceptance of such an opinion would be great. I have discussed this with Mr. Herter and with Mr. Dillon, and I believe that the importance of the matter warrants the following up and the development of some formula. In this connection, I have been impressed in the talks which I have had with high officials of many agencies in Washington with the general realization of the political elements involved in this situation.

Visit to the United States by President Siles

I recommend we give favorable consideration to including a visit to the United States by President Siles in 1958. He is an outstanding figure among the Chief Executives of this hemisphere in the matter of courage, intelligence, and respect for human rights. I would appreciate being advised as soon as possible of the decision reached.

CCC-Type Project for Unemployed

I urge a favorable decision on this project to the extent of permitting the start at an early date of a pilot unit using mainly equipment already in Bolivia. There are political and other implications involved which I consider can only be properly weighed on this basis. I consider that this project represents a promising approach to one of our major problems, and that it should be explored on a practical basis without delay.

Replacement for George Eder

I took occasion on June 24 to call Mr. Charles Hilles, Executive Vice President of International Telephone and Telegraph, in order to tell him how deeply impressed and warmly appreciative I had been of Mr. Eder's work. Mr. Hilles said that his Company was most anxious to get Mr. Eder back. I think it would be a good idea for the Secretary to write a letter to General Edmund H. Leavey, President of the International Telephone and Telegraph, expressing our thanks for Eder's services. Perhaps Mr. Hollister would like to write a similar letter. Mr. Eder left Bolivia on June 25.

With regard to Mr. Eder's successor, I have talked with Mr. Elmer G. Burland, who is retiring from the IBRD, and to Mr. Albert Waterston, of the same organization. I believe that both of these gentlemen could handle the job in Bolivia. My preference would be for Mr. Waterston because he is younger and speaks Spanish, while Mr. Burland is 65 and admits that his Spanish would require considerable brushing up. Also, I am familiar with Mr. Waterston's work in Colombia, and we are good friends. I would recommend that Mr. Rubottom ask Mr. Waterston to come over in order to discuss the possibility of his taking this job, and that, if he is willing to do so, we then make a high level approach in co-operation with ICA and perhaps also with the Treasury (Mr. Burgess), in order to persuade Mr. Black to give Mr. Waterston the necessary leave of absence.

Personnel

I wish to reiterate the high opinion which I have already expressed of Mr. Gilmore, and I hope that some suitable Deputy Chief of Mission job can be found for this very fine foreign service officer whose age (55) and record warrant full recognition. I would also like to stress the importance of filling the Economic Counselor vacancy on which people in Washington have been working for the last year or so. With the departure of Gilmore in August and of Bridgett toward the end of the year, we will be very much weakened in this field. During my stay here, a number of names have been investigated, and I have made a couple of suggestions, but nothing definite has been decided yet.

Housing

I wish to reiterate my recommendation that steps be taken by purchase or by building to provide an adequate Ambassador's residence in La Paz. The present residence which is owned by us would be a quite suitable residence for the Deputy Chief of Mission.[7]

Cochabamba Consulate

Please let me know as soon as possible when we have an affirmative decision on this matter. This Consulate will be most useful to us, and the announcement of a decision to re-open it could serve a most useful political purpose.[8]

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[7] A marginal notation reads: "No go."

[8] A marginal notation reads: "Still dubious."

290. Despatch From the Ambassador in Bolivia (Bonsal) to the Department of State[1]

No. 114 *La Paz, August 13, 1957.*

SUBJECT

Conversation Between Assistant Secretary Rubottom and President Siles Concerning Supplementary Aid for Bolivia[2]

On August 9, 1957, Assistant Secretary of State Rubottom conferred with President Siles and the principal members of the Monetary Stabilization Council concerning the current acute economic situation in Bolivia. A memorandum reporting this conversation in detail is transmitted herewith.

The President also handed Mr. Rubottom a memorandum[3] embodying the salient points of the analysis presented at this meeting and renewing the request which had originally been made in March 1957 that the United States Government give consideration to a program of supplementary aid. In summary this request is as follows:

1. Ordinary aid to cover the needs of the National Budget.
2. US $20,000,000, for a single time, to provide capital for the National Institute of Supervised Credit.
3. US $10,000,000, for a single time, for the resettlement of surplus labor and solution of the problem of unemployment.
4. US $30,000,000 to US $50,000,000, distributed over three or four years, for a minimum development plan.
5. Support and facilities for the effective use of the Monetary Stabilization Fund.
6. Assistance in obtaining external credit, especially for the development entities.

It will be noted that points 1 through 4 are virtually identical with those submitted with the memorandum of March 1, 1957 (see Embassy Despatch No. 484 of March 5, 1957[4]). As the Department is aware President Siles has been informed orally that there is no prospect of supplementary aid beyond the expected FY 1958 economic development assistance program. In view of the receipt of this further memorandum instructions are requested regarding the answers to be made, preferably in writing to this latest request.

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[1] Source: Department of State, Central Files, 824.00–TA/8–1357. Confidential.

[2] Rubottom visited Bolivia August 8–10. Documentation is *ibid.*, Rubottom Files: Lot 59 D 573, Bolivia.

[3] Attached to the source text, but not printed.

[4] Not printed. (Department of State, Central Files, 824.00–TA/3–557)

[Enclosure]

MEMORANDUM OF CONVERSATION

August 9, 1957.

SUBJECT

Discussion Between President Hernán Siles Zuazo and Assistant Secretary Rubottom Concerning Current Bolivian Economic Problems

PARTICIPANTS

President Hernán Siles Zuazo
Foreign Minister Manuel Barrau
Finance Minister Moreno Córdova
President of the Central Bank, Luis Peñalosa
Minister of National Economy, Jorge Tamayo
Representative of the Planning Commission, Umberto Fossati
Assistant Secretary Rubottom
The Ambassador
Mr. Ross Moore
Mr. E. A. Gilmore
Mr. Charles Bridgett

The President opened the meeting expressing appreciation for Mr. Rubottom's visit and saying that he wished to inform the latter of a number of the serious current economic problems, amounting to an emergency, which now confront the Bolivian Government. At his request the Minister of Finance then read statistics reflecting the sharp decline which had occurred in the foreign exchange earnings in the first half of 1957 as compared with the similar period in 1956. These figures showed that exchange earnings in the latter period were $38 million as compared with $28 million for the first half of 1957. The Finance Minister said that a careful revision of the exchange budget for the second half of 1957 had been completed and that on the basis of the best estimates available there will be a balance of payments deficit for the second half of $5 million after making all possible further reductions in expenditures. The President then referred to his annual "State of the Nation" message to the Congress, which he had delivered on August 6, and stated that he had presented the foregoing situation very frankly without concealing any of the unfavorable aspects. He had done this because he wished to assure that the mining sector in particular realized the seriousness of the situation and that operating results for the second half of 1957 would improve. He went on to say that the main factors responsible for the poor showing in the mining sector during the first half had been the reduction in world prices for some of Bolivia's leading minerals exports, the lack of adequate equipment, the progressive exhaustion of the mines, and problems of labor discipline in the mining corporation. These factors will make it necessary that the COMIBOL operated mines in Potosí, Pulacayo and Oruro must, without further delay, make a substantial reduction in personnel if they are not to close altogether. The wolfram mine at Bolsa Negra must be shut down in view of the catastrophic decline in wolfram prices. These reductions in force are creating a serious unemployment problem. In the industrial field also a decline in consumer demand has created a surplus of industrial workers. The President estimated that the combined prospective unemployment would reach 10,000. The only solution is to facilitate the return of these workers to the agricultural sector. A number were formerly agricultural workers. The Government has developed a resettlement plan entailing a capital expenditure of $1,000 per family. Hence, it urgently needs a resettlement fund of approximately $10 million. The President emphasized that this is Bolivia's most serious current problem. He went on to say that the International Mining Company mine at Chojlla will also have to close as a consequence of the decline in the price of wolfram and thus an arrangement providing adequate severance pay to the miners is under negotiation. He said the resettlement plan which the Government hopes to put into effect has the advantage of increasing agricultural production, especially in coffee and fruit, and in addition to serving the domestic markets, it is expected that increased quantities of these products can be exported to southern Peru and northern Chile. There is, for example, a developing market for oranges in southern Peru. Coffee also has good prospects. Studies made in the National Planning Commission indicate that the net yield per hectare in other coffee producing countries varies between $800 and $900. The President does not expect to achieve this figure in Bolivia but considered that a net yield of $400 per hectare is entirely possible. The plan contemplates granting four hectares of land per family producing an estimated net income of approximately $1500 per year which, he said, is substantially above the former average earnings of such workers. The effect would be to give them economic independence and to establish a sound rural democracy. He said that unfortunately the putting of the plan into effect has been handicapped by the lack of sufficient numbers of qualified technicians. He had instructed the President of the Central Bank to take charge of the program. In the near future a committee of workers from the Chojlla mine and from the Finase textile mill (which has a substantial number of surplus workers) will visit nearby areas in the Yungas, where state lands are available, to choose appropriate resettlement sites.

The President then turned to the problem of the Stabilization Fund. He said that week after week the Stabilization Council has been performing miracles to secure the necessary supplies of dollars to keep the exchange market open. He expressed his profound appreciation for the close collaboration of the Embassy and the USOM Mission in this connection. He said experience had demonstrated that the Stabilization Fund must have more "flexibility" and more resources if the serious risk that it may be necessary on occasion to close the exchange market is to be avoided.

He then turned to the problem of economic diversification. He remarked that Mr. George Eder, former Executive Director of the Stabilization Council, had collaborated very closely with his Bolivian colleagues during the planning state of the Stabilization Program to make the necessary reductions in the internal investment budget. He paid tribute to Mr. Eder's work and expressed regret that as a consequence the latter had become the object of strong political attack from certain quarters. The plan followed had been to eliminate so far as possible all projects where there was no prospect of an immediate return in the form of new exports or in the saving of exchange for imports. Experience had shown that despite drastic initial cuts it would be necessary to cut back Government investment even further. A special problem had arisen in connection with YPFB, the State oil company. Its development dollar budget was originally fixed at $12.6 million for the year but the company has encountered difficulties in availing itself of the dollars thus provided, partly because it lacked sufficient bolivianos to make the exchange purchases and partly as a result of technical difficulties in placing orders for needed equipment. The Government is much concerned lest YPFB fall in the same condition as COMIBOL. Its development expenditures must continue, since the yield of existing wells is declining and unless new wells are brought in it may again be necessary to import the petroleum products.

Turning to the problems of COMIBOL the President referred to a recent roundtable meeting of mine managers, union leaders and COMIBOL executives which had been called to consider measures to reduce current operating deficits. This meeting had recommended that COMIBOL must have an immediate additional investment of $3 million to maintain its existing equipment, which is badly depreciated, and an additional $5 million for essential plant expansion.

The President then referred to the recent settlement with the foreign bondholders and also mentioned the negotiations with the owners of the expropriated mines. He said the Government is anxious to reach a settlement but that the propaganda being conducted both in the United States and elsewhere by the ex-mine owners against the Bolivian Government will make any settlement most difficult. He said the Bolivian Government wishes to indemnify them but that it will not tolerate their interference.

Summarizing the economic situation the President said there appeared to be two possibilities: (1) an increase in the amount of aid and (2) possible further stimulus to private investment in the petroleum, mining and agricultural fields. He then referred to the political situation saying that two aspects of recent developments should be especially noted. The first is the common fight against communism. Communists in Bolivia are currently saying that the Siles administration has won the test of strength involved in a recent general strike issue, but that they expect new opportunities to attack the Government. The President said that if incomes and exchange earnings decrease further these new opportunities will certainly become available to them. The second factor which seemed to him to deserve emphasis is the progress that had been made in recent months in strengthening democracy in Bolivia. He compared the recent outbreak in Chile with the threatened general strike in Bolivia at the end of June. He noted that there had been no arrests or shooting of people in the streets here and that the general strike threat had been avoided solely through democratic persuasion. The Government has no fear of the political opposition in the Congress, and he felt it could be justly said that Bolivia had advanced more than other countries in spite of its unsatisfactory economic situation. This, he submitted, is a justification for further aid. He went on to express his deep appreciation for the aid that had already been given.

Foreign Minister Barrau then spoke, emphasizing especially that the future of Bolivia lies in the further development of the mining industry. He said that, including private mining, the number of workers involved may approach 100,000 and that he considered an estimate of 10,000 excess workers at the present time to be very low. Some can return to farms on their own initiative but he placed the numbers who might need assistance as nearer 15,000 than 10,000. To avoid this amount of displacement of workers and because mining offers the best prospects for early exchange returns, he emphasized especially that there should be substantial immediate investment in this field. With reference to the estimated exchange budget deficit for the second half, calculated by the Ministry of Finance at $5 million, he expressed the opinion that the short fall would be nearer $10 million. He said private miners had been particularly hard-hit by lack of credit. More than $3 million worth of necessary mine supplies are in the ports because private miners cannot take up import collections. With the drop in world minerals prices many mines today are operating at a loss. He cited especially Pulacayo, which will have a loss this year of approximately $500 thousand, and the San Jose Mine, which is currently losing $10,000 per day. He emphasized that the mining prospects are very alarming. COMIBOL must have $3 million urgently to maintain its existing equipment. In addition it must have new investment if production is not to drop further. He referred to negotiations with IBRD for a loan to COMIBOL and expressed the opinion that the resulting increase in production would permit the re-payment of such a loan within one year. He emphasized again that Bolivia's future lies principally in mining, that returns in this industry will be the most rapid, that petroleum and agricultural diversification will provide slower yields, and that the current situation is critical.

The Minister of National Economy then spoke reiterating a number of the points made by the President and the Foreign Minister. He called attention especially to the probability that if the sales of dollars to the private sectors continue at the rate which prevailed in the first half of 1957, the deficit in the exchange budget will be substantially higher than the $5 million estimated by the Ministry of Finance. He spoke particularly of the decline in wolfram prices and urged that the contracts with GSA which are now maturing be renewed. He said that some 8,000 families are affected and that the resulting unemployment is Bolivia's principal current problem. He emphasized that the Government had foreseen the development of this situation as early as March of 1957 and that he saw no solution for it except granting of supplementary aid to forestall an economic collapse.

The Foreign Minister then referred to a memorandum of March 1, 1957 (see Embassy Despatch No. 484 of March 5, 1957).[5] He said the plan presented therein would permit Bolivia to be economically independent within three or four years. The present level of aid offers no prospect that Bolivia can eventually stand on its own feet. He said also that an additional current difficulty is the fact that a substantial part of the US aid arrives in the form of food. These food products are in part competitive with locally produced agricultural products with the result that Bolivia's own production cannot increase. The Government is most anxious to stimulate agriculture and is alarmed by the developing surpluses in some of the US aid products. It hopes that some means may be found whereby the value of these products can be made available as cash grants to increase investment.

The Foreign Minister then referred to the problem of the court attachments against Bolivian funds deposited in the United States banks. He said that unfortunately the GOB had been unable to pay all of its commercial debts maturing during the first half of 1957, and that although a new settlement plan had been proposed to the creditors not all had accepted it. He emphasized the strong opinion of the Bolivian Government that the funds of the Central Bank should be immune from attachment. At the forthcoming Buenos Aires conference the Bolivian delegation will propose a clause in the proposed Inter-American Economic Agreement guaranteeing the immunity of the funds of all state banks. He said GOB considers that action taken by the United States courts in this matter to be an infringement of sovereignty and that such funds should not be subject to the courts in other countries. He expressed the hope that the State Department would support this position and he said that Bolivia is also requesting the support of the International Monetary Fund. He remarked that there are increasing numbers of state banks in the various Latin American countries and that it will be an impossible situation if any United States resident can obtain a court attachment against these foreign bank funds.

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[5] See footnote 2, Document 285.

Mr. Rubottom then spoke, saying first that he wished to thank the President and the Ministers for the foregoing very clear presentation of their problems. He referred also to the successes of the Stabilization Program. He went on to say that it would be difficult for him to comment in detail on all of the matters which had been mentioned but that it had been apparent for some time that a reappraisal of the program is definitely called for, and for this reason he had taken advantage of his trip to Buenos Aires to stop in Bolivia to become better acquainted with the Bolivian officials and to have an opportunity to discuss their problems with them. He said he would comment on two aspects of the situation; first the political and secondly the economic. With regard to the political aspect he said that he was most pleased with the developments which had occurred and wished to congratulate the President on his recent successes in this regard. It should be recognized, however, that the political situation can easily deteriorate if the economic problems are not solved. He felt that the analysis presented by the Bolivian officials was essentially correct. He said he had just finished his presentation of the proposed Bolivian aid program for FY 58 to the United States Congress, and that he saw a distinct possibility that the Congress would act favorably on the Bolivian aid program submittals. He had encountered considerable sympathy in Congress for Bolivia's efforts to stabilize its economy, and he was confident that the Bolivian aid program would be continued. There is a general realization, he said, that the United States and Bolivia are in partnership in this matter and that while the problem is Bolivia's in the first instance, it will become a problem for the United States and for the continent as a whole if adequate solutions are not found.

With reference to the details of the program, Mr. Rubottom said that consideration has been given and is being given to some changes in the form of aid. Efforts are being made to ensure that the amount of aid granted shall more effectively accomplish its purposes.

He remarked that the President's plan to resettle 10,000 heads of families is similar to programs undertaken in other countries and that the latter have encountered numerous problems in attempting to carry out these programs. He expressed the opinion that the cost of such a resettlement plan would be considerably higher than that estimated by the Bolivian Government and noted also that the plan to grant four hectares of land to each family is much more modest than similar plans in other countries. (The President interjected at this point that land to be allocated per family would cost the state nothing.) Mr. Rubottom went on to say that the plan to develop exports of citrus fruits seemed to him very constructive and that he hoped that the United States might be of some assistance in this regard. With reference to the problems of the mining industry, especially as regards the recent decline in world prices, he said the situation as regards lead and zinc has been particularly troublesome to the United States. He referred to the serious condition of mining in the twelve states in the United States and to the political pressure which had been developing in the Congress. For example, Senator Mike Mansfield of Montana, normally a strong advocate of free trade principles, has taken the position that additional protection to domestic mining is essential under present circumstances. It is hoped that the low prices will be temporary and that revived demand will somewhat reduce the seriousness of the problem. He said that Mexico is planning to call a meeting of the chief lead and zinc producing countries with a view to developing a production control agreement. While this may not be the best approach to the problem it is indicative of the seriousness with which it is viewed. With regards to wolfram the GSA has currently a very large reserve. It will be most difficult to renew the maturing wolfram contracts. The decline in the price of copper is also serious but has not created an acute problem as is the case with the other metals.

Mr. Rubottom then referred to the recent bondholders settlement saying that this action had made a favorable impression on the Congress. Some members of the Congressional committees had asked, however, concerning the mineowners settlement. Mr. Rubottom stated that he did not accept the mineowners propaganda, but that nevertheless they received some hearing in US Congressional circles, and that it would be most desirable to reach an equitable settlement. He emphasized especially that official Washington has never considered that this matter should be treated on a quid pro quo basis. Good faith negotiations are sufficient from our viewpoint. If the negotiations are currently stalled, he expressed the hope that they might be renewed and pushed to an early conclusion. As regards Bolivia's current efforts to secure IBRD financing, he stated he would discuss the matter with President Black upon his return.

He added he did not believe that IBRD was thinking in terms of a quid pro quo for its financing. Regarding the problem of stimulating private investment he noted that a very good impression had been created by the acceptance by Bolivia of the investment guarantee program and by the favorable reception accorded the oil companies and other interested private investors. One problem, he noted, is the 37.5 percent social security contributions required in Bolivia. He expressed the opinion that if these cannot be modified it cannot be expected that private investment will develop substantially.

Turning to problems of COMIBOL and YPFB, he said that discussions are going forward in Washington on the possibility of assisting these two entities. He hoped that a formula might be found, especially as regards YPFB, and he stated that the recent decisions taken in the Stabilization Council regarding the exchange problems of the latter had been favorably noted in Washington. With regards to the Stabilization Plan he remarked that its results in many respects had been almost miraculous, but as in other human affairs it could always be re-examined and improved. In the US Treasury and the International Monetary Fund there is great anxiety to maintain the free exchange market. It is hoped that revised tariff, tax measures and further credit controls may be effective in reducing the demand in the private sector.

On the problem of fund attachments he remarked that Ambassador Andrade had been asked to supply additional data concerning the nature of the debts and the claims made by the creditors, and that with these data at hand it is hoped a decision can soon be reached regarding the Department's position on immunity. He had discussed the matter in detail with the State Department legal advisor and with Secretary Dulles. In general, the Department has followed the policy that the use to which foreign funds are devoted shall determine whether they may be accorded immunity from court action. Foreign Minister Barrau commented at this point that the International Monetary Fund has suggested that COMIBOL foreign accounts be centralized in the National Bank of Washington and that Banco Minero accounts be transferred to the Riggs National Bank, both accounts to be carried in the name of the Bolivian Embassy. This would solve the problem of future attachments of the funds of these two entities.

Mr. Rubottom went on to say in conclusion that he wished the Bolivian officials to realize that the Department is fully supporting the Bolivian Government in its efforts to stabilize its economy. Much personnel and substantial funds have already been devoted to this problem. He stated that it had been most useful to him to have had the opportunity to discuss the problem in detail with the

Bolivian officials and he again expressed appreciation for their analysis and comments.

The Ambassador stated that he wished to thank Mr. Rubottom for his kind words about the staff here and to add that never before in his career had he encountered so inspiring and favorable an atmosphere for collaboration on a difficult problem as he had found in Bolivia. With reference to the mining situation he said that the Ford, Bacon and Davis report, while excellent, did not in his opinion give sufficient credit to the efforts which had been made by the miners in a very difficult situation to maintain production. He noted that Bolivia's quota under the international tin agreement is 32,000 tons and that this year production may not reach 27,000 tons. There is thus the possibility for a substantial expansion and he is hopeful that with additional efforts the international quota might be reached. He remarked also on the interest in Bolivia expressed by various international mining firms. He emphasized that he was not speaking as the advocate of any specific firm but that he hoped that conversations that had taken place some time ago with various of them might be renewed and vitalized. These firms, he said, operate on the basis of long-range plans and are not alarmed by the recent decline in minerals prices. He hoped that something could be done to conclude constructive arrangements with them. In this connection he suggested that the Ford, Bacon and Davis report should be released in its entirety. This detailed exposition of the mining situation would, he believed, be helpful in enlisting the interest of private mining firms.

With reference to Mr. Rubottom's comments the President then said that he wished to emphasize that the Bolivian Government is firmly determined to reach an agreement with the former mineowners. He noted, however, that press reports indicated the value of the Suez Canal, the compensation for which is now under discussion with the Egyptian Government, is placed at only $45 million whereas the Patiño group alone has placed a valuation of $60 million on its former properties. The Bolivian Mineworkers Federation has been insisting that, quite apart from receiving compensation, the Patiño Company should make payments to the Government of Bolivia for substantial past frauds in the illegal transfer of exchange abroad and the avoidance of social security taxes. The Government thus finds itself between two extreme positions. He hoped, however, that a formula could be reached which would reconcile the divergent viewpoints. He then mentioned a recent investment proposal involving the grant of a substantial area in eastern Bolivia for the exploitation of forest products. He said in questions like this the Government must take into account political opinion in Bolivia which still fears the creation of super-states within the country. He mentioned in this connection the alleged United Fruit empire of some years ago in Central America. Despite the risks of arousing adverse public reaction he felt, nevertheless, that conversations should be renewed with a view to granting some such concessions. He mentioned also the negotiations with the National Lead Company for the Mathilde property and described briefly the status of the Madrejones project, saying that among the three principal bids which had been submitted the ultimate decision would have to be taken by the Congress.

Mr. Rubottom referred to the desirability of the early adoption of a mining code and remarked that Mr. Wortham Davenport is expected to return to Bolivia shortly to resume work on this project.

The President said that the Bolivian Government is fully prepared to push ahead with an investment law and the new mining code. He hoped that substantial progress could be made on both projects within the next few months.

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291. Memorandum of a Conversation, Department of State, Washington, October 3, 1957[1]

SUBJECT

Bolivia: Settlement for Expropriation of Tin Mines; Oil Development

PARTICIPANTS

The Secretary of State
Sr. Don Manuel Barrau Pelaez, Foreign Minister of Bolivia
Ambassador Victor Andrade of Bolivia
Terry B. Sanders, Jr., Acting Director for South American Affairs

The Secretary expressed gratification over the Bolivian Government's progress in its stabilization program and over the close cooperation between the United States and Bolivian Delegations to the United Nations. The Foreign Minister said his country is grateful for United States economic assistance.

The Secretary described the problem caused our Government by the continuing absence of a settlement between the Bolivian Government and the former tin mine owners. He pointed out that a reasonable offer to the former owners would be helpful. The Minister responded that his Government is working on the problem.

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[1] Source: Department of State, Central Files, 824.25/10–357. Official Use Only. Drafted by Sanders.

The Minister described briefly Bolivia's petroleum development. He cited especially the failure of Brazil to help develop Bolivian oil under the 1938 agreement between the two countries and said that difficult negotiations are taking place between the two countries in an endeavor to implement the agreement. The Secretary mentioned Communist agitation as a factor retarding Brazil's development of its own petroleum resources and thereby weakening the Brazilian economy.

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292. Memorandum of a Conversation, Department of State, Washington, October 3, 1957[1]

SUBJECT

Difficulties Caused by Failure of Bolivian Government To Reach Settlement With Former Tin Mine Owners; Outlook for United States Economic Assistance to Bolivia in FY–1958

PARTICIPANTS

Manuel Barrau, Foreign Minister of Bolivia
Victor Andrade, Bolivian Ambassador
ARA—Mr. Rubottom
REA—Mr. Turkel
OSA—Mr. Silberstein

After an exchange of greetings, Mr. Rubottom said he would like to return to the subject he had been discussing with the Foreign Minister at lunch. As he had indicated previously, it was extremely important for Bolivia to resolve the problem of the tin mines. Foreign Minister Barrau said the government realized this and was trying to attack the problem of surplus labor in the mines. He said Comibol was also seriously handicapped by a lack of capital. With the modest outlay of some $2 million, which, unfortunately, Comibol did not have, some quick returns could be achieved.

Mr. Rubottom said that as long as the problem of settlement with the former mine owners remained unrestored [*unresolved*], Comibol could not count on outside help. Moreover, the United States Government was restricted in its efforts to assist Bolivia because of this problem. Mr. Rubottom referred to the statement by Senator Green[2] which has been published in the *Congressional Record* of September 19 which had some strong words in this regard and in which the Senator had indicated he planned to institute an investigation of our Bolivian program when the Congress returned.

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Bolivia. Confidential. Drafted by Silberstein.

This is the first part of a four-part memorandum. The other parts concerned travel of Bolivians to Soviet bloc countries, recent political developments in Bolivia, and Bolivian-Brazilian differences over petroleum. (*Ibid.*)

Ambassador Andrade said he wished to point out that the Senator was mistaken in speaking of confiscation or seizure of the tin properties. He said Bolivia had begun making payments to the mine owners soon after the nationalization, and, therefore, it could not be correctly called confiscation. Foreign Minister Barrau said that in the case of Hochschild, the "retention" payments, because of the way in which they had been set up, now actually amounted to more than the value of the Hochschild properties which had been nationalized. Mr. Rubottom said he understood these retention payments totalled over $12 million. He said he felt the Bolivian Government might be able to do a better job in making this fact known, since up to now the United States public and Congress were getting largely the views of the other side. At the same time, he said, he could not overstate the importance of bringing about a settlement. He wondered whether the Bolivian Government might not wish to take the matter to arbitration under the auspices of some international agency, since the mine owners had indicated they were ready to do so.

Mr. Silberstein mentioned he had just heard that Senator McClellan, Chairman of the Permanent Investigation Committee of the Senate, had asked ICA for certain data in the Bolivian aid program, and presumably was planning some kind of investigation. Mr. Silberstein mentioned that he understood also that ICA was laying special emphasis, in its planning for the FY–1958 aid program, on working up projects to absorb or resettle surplus labor in connection with the Bolivian Government's labor dismissal program.

Mr. Rubottom said that the Administration consideration of our FY–1958 aid program for Bolivia was nearing completion. He said that, despite the fact that the Congress had cut the overall aid funds this year, he was quite confident now we would be able to continue our aid to Bolivia at substantially the same levels we had been maintaining. Moreover, since it now appeared that Bolivia had little need for food from the United States, it would be possible to devote a great part of the program to economic development projects.

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[2] Theodore F. Green (D.–R.I.), Chairman of the Senate Foreign Relations Committee.

293. Memorandum of a Conversation, La Paz, November 17, 1957[1]

PARTICIPANTS

President Hernán Siles Zuazo
Manuel Barrau, Minister of Foreign Relations
Carlos Morales Guillen, Minister of Defense
The Ambassador
Dr. Moore
Mr. Bridgett

SUBJECT

President Siles' Comments on Current Bolivian Situation

The President opened the conversation with a short discussion on the political situation especially as regards his position on December 15 when the one-year wage freeze established by the Stabilization Decree is ended. The President mentioned that there has been quite a bit of activity noted amongst certain disaffected members of the MNR party (who he described as "ex-cuperos" who today have no visible means of support) together with increased Communist activity attributed by him to the tremendous propaganda value of recent Soviet scientific achievements and as well within extreme rightist groups. He called upon Minister of Foreign Affairs Barrau and Minister of Defense Morales Guillen to present a short report of their knowledge of this situation.

Minister Barrau stated that the Government had knowledge that disaffected members of the party together with Communists and rightists were presently working independently towards causing difficulties from this time on especially regarding the unemployment legislation, the renewal of the President's extraordinary powers, and the unfreezing of wages on December 15. At the present time these three groups apparently are working independently and there is no indication that they have accomplished a united front but he feels that this may not be in the too near future. His opinion is that they will not only continue to conspire but that they plan to commit overt acts of violence.

Minister of Defense Morales Guillen stated that the government could count on very little support from the army which has been torn by internal strife and is badly underpaid. While he made no mention of the carabineros, he apparently did not count upon their support to any extent either. His feelings were that the government will again have to arrive at a compromise solution to the problem which will be presented especially on wages. He also mentioned that the government could expect acts of violence and more so as the opposition realizes President Siles' aversion to using armed force that it probably will be difficult to control.

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[1] Source: Department of State, Central Files, 724.00/11–2257. Secret. Drafted by Bridgett, Second Secretary of the Embassy in Bolivia. Transmitted in despatch 450 from La Paz, November 22.

The President then went on to state that there were three possibilities to meeting the wage increase demands which he is certain are to be presented. He already has knowledge that one demand will be for a minimum of 30%.

(1) A reduction in the value of the dollar—On this subject the President admitted that this idea had been discarded inasmuch as the IMF team argued strongly against it and indicated that the IMF would not accept such a procedure which was estimated to possibly cost a loss of some $10 million in reserves.

(2) Compromise on the lowest possible increase in wages—The President stated that he was convinced that an increase in wages without a corresponding increase in production was not realistic. He admitted that there was a very large sector of labor especially government employees who were in actual want and that their salaries were not sufficient to provide even a low standard of living. He hoped that he would be able to hold the line in not granting an increase in salaries, but did not close the door to the fact that he may be forced to do so.

(3) To increase real purchasing power of wages by lowering prices on essential commodities—On this subject the President felt that if he were able to lower the price of essential commodities to provide increased purchasing power of wages that he could possibly stave off at least for the time being a salary increase.

The President then went on to talk about the plans that the Government now has to bring about ratification of the decree to provide for unemployment. In this connection he stated that he was planning to have his cabinet discuss with the Congress in reserved sessions the state of the nation and to bring about a showdown by requesting a renewal of his extraordinary powers to legislate by decree certain economic measures. The original decree was granted in November 22, 1956 and will end November 22, 1957. He is of the opinion that he will have sufficient support in Congress to get this measure renewed, but at the same time he expects strong opposition and he hopes to be able to measure his chances for the passage of the unemployment law by the way in which the Congress receives the reports of the various Ministers.

At this point he mentioned the speech made in Deputies by Fellmann Velarde, generally recognized as spokesman for ex-president Paz Estenssoro. Fellmann Velarde spoke at great length against any reduction in labor force demanding that the government set an example by maintaining in their positions all workers and that private business do likewise. The President stated that he had called in Fellmann and endeavored to obtain an explanation from him as to why he had taken this position. The President stated that the Deputy had talked nonsense and had been unable to come up with a reasonable position. (It was apparent from the importance that the President appeared to give to his conversations with Fellmann Velarde that he believes that Paz Estenssoro may be being considered as a possible replacement for Siles in case Siles resigns or is forced out of the Presidency in December.)

The President then turned the conversation to the possibility of what groups were working in Bolivia to cause unrest. He apparently is convinced that some members of the MNR party are courting support of Peronistas (Lechin is known to be very close to high ranking Venezuelan government officials and the Bolivian Ambassador to Venezuela, Dr. Marin, was recommended by Lechin for this position and Marin is his very close friend. Likewise, the Venezuelan Ambassador to Bolivia is close to Lechin. All of which induces present thinking to tie Lechin in with Peron's activities from his residence in Venezuela). Expanding on this subject the President pointed out that it was his opinion that a new government in Argentina would be pro-Peronista no matter what name it ran under in the elections, that is if there are elections. Also that Bolivia on account of its geographical position if it had a pro-Peronista government would be an excellent base for supporting political activities in Argentina. At this point the President stated that the present Argentine president Aramburu will visit Santa Cruz on December 5. It is expected at this time that conversations between the two presidents will be held with a view to Bolivia obtaining certain assistance from the Argentines and the Argentines obtaining some assistance from Bolivia in restricting Peronista activities in this country.

Foreign Minister Barrau took up the conversation and explained Bolivia's situation comparing it to a buffer state and went on into a discussion of Brazil's supposed intentions as regards Bolivia and especially the Bolivian territory comprising most of its prospective petroleum fields. The past history of Brazil's imperialistic aims as regards Bolivia, the loss of the Acre area and the insignificant but present territorial claims that Brazil has pending with Bolivia. The President then mentioned his thoughts on the present Bolivian [*Brazilian*] situation. He stated that Brazilian President Kubitschek is surrounded by an army caste which is definitely committed to Brazilian territorial expansion at the expense of Bolivia. That Brazil was not entirely blameless in the recent disorders in Santa Cruz and that the activities of Ing. Whatley, Brazilian representative on the mixed Bolivian-Brazilian commission, had been under close surveillance and it was evident that he was engaged in, if not inciting the Cruceños, at least giving them more than moral support.

The unpublished and little known Brazilian trade agreement proposal submitted here some months ago was also mentioned. This proposal would have created a Brazilian zone of influence from Santa Cruz to Cochabamba and as far south as the Argentine would have allowed it to penetrate in this zone. It was proposed that extensive Brazilian investments even to the extent of a steel mill would be made and that special privileges would be granted to Brazilian investors. The President stated that he understands that a similar treaty was entered into between Brazil and Paraguay. In referring to the army's imperialistic influence the President mentioned again the visit of Petrobas President Colonel Janery, laughingly referring to his offer that Brazil save Bolivia from the imperialistic Yankee capitalists and the oil trusts of the world.

The extent of the influence of the *Hanson Letters*[2] was then discussed in regards to the subject of petroleum and the attacks that this letter has been making against Bolivia's supposedly captive status to the U.S. At this point the President again discussed the impending Senator Green inquiry and was hopeful that he would be able to take some steps regarding the settlement of the compensation to be paid to the ex-owners of the nationalized mines. The plan mentioned some time ago by the President to the Ambassador of having Ambassador Paz Estenssoro approach Antenor Patiño in London for a person-to-person discussion did not materialize as Patiño had already left England by the time this proposal was firmed up. The question then was asked as to whether the President intended to carry through his other plan of having an independent valuation of the mines made by a reliable firm (possibly Ford, Bacon and Davis) and on the basis of this valuation to make a definite offer of settlement to the ex-mine owners. The President replied in the affirmative. The Patiño proposal which suggested that the mines be turned over to an experienced mining company for operation was also mentioned by the President who stated that this proposal was politically impractical.

Amongst other subjects discussed were the foreign investment proposals now before the Bolivian Government for acceptance. In this connection President Siles assured the Ambassador that the South American Gold and Platinum Company contract[3] (this has been the subject of strong opposition in the Senate where the contract is now awaiting ratification) will be ratified by Senate. He hopes that this will be accomplished during the present week.[4] No other specific propositions were mentioned but the President gave the impression that he would give preferential attention to the acceptance or rejection of such proposals that are now pending.

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[2] Reference is to *Hanson's Latin American Newsletter*. Documentation relating to the newsletter is *ibid.*, 832.2553/7–1757 and 911.63/1–1155.

[3] The South American Gold and Platinum Company, a U.S. based corporation, was negotiating exploitation contracts with the Government of Bolivia for nationalized mineral deposits, ownership of which was still claimed by the Aramayo Mining Company. Documentation is *ibid.*, 811.05120 and 811.05124.

Foreign Minister Barrau stated that the IMF had agreed to extend the present standby agreement to December 28 and that the Bolivian Government must accomplish the conditions set down by the IMF team by the early days of December, possibly a deadline of December 5. Also during the conversation Foreign Minister Barrau's request to the Ambassador for a letter which would state the conditions under which the 1958 U.S. economic aid program was being made available to Bolivia was brought up. Foreign Minister Barrau made it clear that he considered that this letter would enable him to confront certain opposition members especially in Congress that the United States Government's program could not be implemented unless certain conditions were met by the Bolivian Government, especially that regarding freedom to hire and fire labor. The Ambassador stated that while this subject was a delicate problem in Bolivia, it could also create a delicate political problem in Washington and that he was studying and consulting on the manner in which he could write such a letter to the Bolivian Government. He mentioned that it would possibly be several days before such a letter could be drafted if it were thought appropriate to do so.

Comment: It was apparent that President Siles' main interest in arranging this conference was to bring to the Ambassador's attention the numerous domestic and international political problems that were facing Bolivia at this time. The presence of Foreign Minister Barrau and Minister of Defense Morales instead of the Minister of Economy, the Minister of Finance or his economic advisor Mr. Gisbert tend to confirm this impression.

The Ambassador took occasion during the conversation to reiterate the Embassy's position regarding the need for the Bolivian Government to obtain the renewal of the standby agreement with IMF and the U.S. Treasury, the renewal of the President's extraordinary powers to continue the implementation of the Stabilization Program, the issuance of legislation to provide for freedom of hiring and firing of labor together with the unemployment assistance to be provided by the U.S. economic aid program, provisions for an appropriate climate to attract private capital investment in developing Bolivia's natural resources and the need to hold the line regarding wage increases at the time of the unfreezing of salaries on December 15 so that if any wage increases are granted they be based on productivity. The President's remarks to these points are contained in the body of the memorandum of conversation above.

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[4] The contract was awarded on November 22, 1957. (*Ibid.,* 811.05124/11–2257)

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294. Note From the Embassy in Bolivia to the Bolivian Ministry of Foreign Affairs[1]

La Paz, December 23, 1957.

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs and Worship and has the honor to refer to the aide-mémoire of the Government of Bolivia dated August 9, 1957 on the subject of supplementary aid for Bolivia. The contents of this aide-mémoire have received the most careful consideration of the United States Government and the Embassy has been instructed to make the following reply.

The United States Government is deeply mindful of the great efforts made by the Government of Bolivia for the stabilization and the consequent expansion of the Bolivian economy as well as of the very considerable progress already achieved.

It is noted from the aide-mémoire of August 9 that the aggregate amount of aid requested for supervised credits, labor resettlement, and a minimum development program is between $60 million and $80 million over a period of years. It is observed from the aide-mémoire that the amounts specified were set forth only as tentative estimates. The United States Government is, in principle, sympathetic with programs of this type in Bolivia, and, as the Government of Bolivia is aware, is preparing to assist such activities through the Fiscal Year 1958 aid program.

In order to enable the Government of Bolivia to formulate its plans, the United States Government desires to state that it is not in a position to consider additional grant aid to Bolivia over and above the amounts set forth in the Fiscal Year 1958 program presented to the Government of Bolivia on October 16, 1957. There are two basic reasons for this. The first is the limited amount of funds made available by the United States Congress on a global basis and the competing needs of other countries. The second is the conviction increasingly borne out by developments that Bolivia should be able to meet an increasing share of its requirements of foreign capital through the normal channels of private investment and public credit. In this connection it may be recalled that the Executive Branch of the United States Government has always assumed that grant aid to Bolivia would be a decreasing program as time went on, and that it has explicitly based its requests to the Congress for funds on this assumption.

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[1] Source: Department of State, Central Files, 824.00–TA/12–2657. Official Use Only. Transmitted in despatch 580 from La Paz, December 26.

With respect to the specific requests made in the aide-mémoire of August 9, the views of the United States Government are as follows:

(1) Budget Support.

At the current rate of exchange, the Fiscal Year 1958 aid program should generate counterpart funds which, together with anticipated accruals from prior-year programs, should provide enough bolivianos to cover the deficit in the ordinary budget for 1958. This calculation is based upon the policy of continued rigorous fiscal economies which the Government of Bolivia has adopted and it underlines the importance, of which the Government of Bolivia is already aware, of creating new sources of tax revenue.

(2) Supervised Credit.

It appears from the aide-mémoire of August 9 that the Government of Bolivia would contemplate the extension of very substantial loans, in the form of supervised credits, not only to private mines and industry, but also to the Corporación Minera de Bolivia (COMIBOL). For the sake of convenience, the question of COMIBOL is herein discussed separately. As regards supervised credit in its more ordinary sense, it will be noted that the Fiscal Year 1958 aid program will provide for credits to private mining and industry.

(3) Resettlement of Surplus Labor.

The Fiscal Year 1958 aid program also provides for land settlement, road construction, land clearing, environmental sanitation, and agricultural supervised credit, to absorb displaced workers.

(4) Development.

Under the rubric of "Minimum Development Plan" the aide-mémoire of August 9 envisages public projects in the fields of road transportation, food production, irrigation, and school construction. As noted in the immediately preceding paragraph, at least a part of this program will be made possible by the aid funds provided for resettlement of surplus labor. Additional resources which will assist significantly in accomplishing the objectives of the plan will be provided by servicio contributions and program contracts.

In reference to agricultural development, the United States Government has noted the increase in actual and anticipated output of agricultural products, which it believes may be attributed primarily to the abandonment by the Government of Bolivia of price controls and of an artificial system of exchange rates, and in some degree to improved production methods resulting at least in part from the technical assistance activities of the Servicio Agricolar Interamericano.

Though the aide-mémoire of August 9 does not deal specifically with the question of private investment, the United States Government knows that the Government of Bolivia is fully conscious of the important rôle which private investment can play in accelerating Bolivia's economic development. The United States Government is confident, therefore, that the Government of Bolivia will continue to make every effort, through appropriate legislation and otherwise, to encourage the accumulation of capital in Bolivia as well as the entry of private capital into the country.

In addition to the matters touched on above, the aide-mémoire of August 9 solicits the cooperation of the United States Government with regard to two further problems.

The first relates to "support and facilities for the effective use of the Monetary Stabilization Fund". It may be pointed out that the ICA funds and the stand-by under the Treasury Exchange Agreement have been available to Bolivia on conditions and under procedures at least as favorable as those applicable to other countries receiving these types of assistance. Nevertheless, the appropriate officials of the United States Government are prepared to discuss with officials of the Central Bank of Bolivia any aspects of this question which the latter may wish to raise. As regards facilities for using that part of the Stabilization Fund which is provided by the International Monetary Fund, the United States Government is, of course, not in a position to comment.

Finally, the aide-mémoire of August 9 seeks the assistance of the United States Government in "obtaining international credits for the amplification and renovation of equipment for COMIBOL". The United States Government fully understands the concern of the Government of Bolivia over the declining trend in the output of COMIBOL and the potential effect of this trend on the balance-of-payments and general economy of Bolivia. The United States Government would agree that the grave deterioration in the capital equipment of COMIBOL is an important factor in this decline, which must be corrected if the present trend is to be halted or reversed.

The United States Government has on several occasions in the past pointed out the inextricable connection between the problem of obtaining foreign credits for COMIBOL and a settlement of the claims of the former owners of the nationalized mines. The Government of Bolivia can help to remove this particular barrier to foreign credits by taking positive steps to reach a definitive settlement of this problem through procedures that would assure fair and disinterested treatment to all the parties concerned.

The Embassy of the United States of America takes this opportunity to renew to the Ministry of Foreign Affairs and Worship the assurances of its highest consideration.

BRAZIL

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND BRAZIL[1]

295. Telegram From the Ambassador in Brazil (Kemper) to the Department of State[2]

Rio de Janeiro, January 7, 1955—7 p.m.

643. For Under Secretary from Ambassador. Deeply concerned Gudin's[3] attitude. Think his retirement from government would open door for same sort of machinations that plagued Brazil under former administration.[4] President's reference to Caracas and Rio conferences[5] and pledge of assistance to friendly nations plus continued press references to Marshall Plan for aid has caused Brazilians to ask "In what respects have we failed to cooperate and why is assistance we so desperately need being denied us?" Actually Brazil has not acted with reasonable promptness on a number of pending matters. But the heroic effort being made to bring some order out of present chaotic financial situation merits both our admiration and our assistance. Still inclined to opinion they should settle pending matters including atomic energy agreement, but shall not press matter further in view your Deptel 550.[6] Have never associated this with other negotiations, but have not hesitated to mention when

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 570 ff.

[2] Source: Department of State, Central Files, 732.00/1–755. Secret.

[3] Eugenio Gudin, Brazilian Finance Minister.

[4] Reference is to the administration of former Brazilian President Getúlio Vargas. After Vargas committed suicide on August 24, 1954, Vice President João Café Filho succeeded to the presidency.

[5] Reference is to the Tenth Inter-American Conference, held at Caracas, Venezuela, March 1–28, 1954, and the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly called the Rio Economic Conference), held at Quitandinha, Brazil, November 22–December 2, 1954.

[6] In telegram 550, January 6, Under Secretary Hoover informed Ambassador Kemper that interested agencies believed that it would be undesirable to continue to associate U.S. action regarding a proposed P.L. 480 wheat agreement with Brazilian performance concerning uranium and atomic energy agreements. "Such a linkage," he pointed out, "would (1) suggest degree of urgency our part obtain atomic energy agreements which is not now in accord with facts, (2) inject additional obstacle to disposal US agricultural surplus, (3) detract from political good will engendered by alleviation Brazilian food (Continued)

opportunity offered to all in authority because I think conclusion this agreement, if properly publicized, easily might remove petroleum situation from political arena. I, therefore, recommend: 1. That I be authorized (see Embtel 636)[7] to compromise on commodities for Cruzeiros agreement within reasonable limitations on basis that will create most good will. 2. That credit bank settlement for which Gudin was criticized in Cabinet meeting be approved without further delay. 3. That wheat–minerals deal be disposed of immediately with several options offered for use of dollars not expended for sodium sulphates. 4. That I be authorized to inform President and Gudin that our rejection of Brazil's request for stand on credit is not to be interpreted as negative attitude their needs, but rather considered judgment that day to day appraisal by our Treasury in consultation with persons elected by Gudin and in whom he has confidence is much better procedure for Brazil.

I am convinced that as goes Brazil, so will go the hemisphere. In any reversal this procedure I have outlined, Secretary and the President might wish to be informed.

Kemper

(Continued)

shortages." (Department of State, Central Files, 832.2546/1–655) For text of P.L. 480, the Agricultural Trade Development and Assistance Act of 1954, see 68 Stat. 455.

[7] Telegram 636, January 7, contained the Embassy's recommendations concerning the proposed P.L. 480 wheat agreement with Brazil. (Department of State, Central Files, 411.3241/1–655)

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296. Telegram From the Secretary of State to the Embassy in Brazil[1]

Washington, January 12, 1955—10:22 p.m.

569. For Ambassador from Under Secretary. Convey my personal regards Minister Gudin with following message "Mr. Humphrey and I have full sympathy for your extremely difficult position in solving Brazil's financial problems both internal and external. For this reason we would welcome the closest possible direct contact with you during the critical months ahead. To achieve this daily

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[1] Source: Department of State, Central Files, 832.10/1–1255. Confidential. Drafted by Cottrell; cleared with Atwood, Holland, and Overby; and approved by Under Secretary Hoover.

communication between us we proposed the arrangement suggested to you by Ambassador Kemper. A representative of your personal choice available for continuing discussions with Eximbank and other Departments and agencies might best effect this close liaison. Because of the special nature of this problem we would hope such a temporary arrangement would not affect our normal diplomatic channels. I would be grateful if you will inform Ambassador Kemper of your opinion of this suggestion for immediate transmission to me. With kindest personal regards, Herbert Hoover, Jr."[2]

Dulles

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[2] Gudin's reply to Hoover's message was transmitted to the Department by Ambassador Kemper in telegram 676 from Rio de Janeiro, January 19:

"I am very grateful to Mr. Humphrey and to yourself for the expression of your desire to cooperate with my administration. This is especially gratifying to me due to the fact that in spite of my efforts since I took charge I have been entirely unsuccessful in obtaining the cooperation of your Treasury with the sole exception of a one years credit from the Federal Reserve Bank with 100 percent gold collateral. I am instructing if you agree Mr. Octavio Paranagua special financial assistant to the Brazilian Embassy to establish the direct contact you suggest. Kindest regards Eugenio Gudin". (*Ibid.*, 832.10/1–1955)

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297. Memorandum From the Director of the Office of South American Affairs (Atwood) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, January 19, 1955.

SUBJECT

Brazil

Discussion:

(1) Brazil's Economic Program is Slipping

Minister Gudin outlined in Washington, and later in Brazil, a constructive program to meet Brazil's pressing economic problems. This program included: 1) Slowing inflation; 2) Increasing exports; 3) Encouraging private foreign investment; 4) Balancing the national budget; 5) Modifying the petroleum legislation; and 6) Adjusting Brazil's external balance of payments.

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[1] Source: Department of State, Central Files, 832.00/1–1955. Confidential. Drafted by Atwood and Cottrell. In a handwritten note on the source text, Atwood made the following comment: "This does *not* constitute a change in policy—It's a change in *approach*. It's really a matter for *State, Treasury & Eximbank.*"

Brazil has made very little progress on this program. 1) Gudin has cut bank credit but issuance of currency hit a new high in December—3.6 billion cruzeiros—and the inflation rate has not slowed. 2) Exports have not increased. On the contrary, December receipts of $55 million showed a sharp drop and January to date looks worse at about $1 million per day. (Brazil's dollar budget is based on a $60 million monthly average.) The President and Gudin have publicly stated they do not like the present coffee policy, but they have done nothing about it because of political pressures. The Government is now forced to buy large quantities of coffee. A new system of export rates was announced today, but it is doubtful that this will improve the situation much. 3) There has been much talk but for practical results in improving conditions affecting foreign investment. Brazil raised the remittance tax from 8% to 10% and halted its development programs. 4) Congress turned down Gudin's request for more taxes and passed a national budget for 1955 of 56 billion cruzeiros with an anticipated deficit of 3.2 billion cruzeiros. Gudin then announced with gloom an actual anticipated deficit of about $15 billion when other items not in the budget are taken into account. He says this will be highly inflationary. 5) Although the President and Gudin are opposed to Petrobraz, they have decided not to take on a political fight by attempting to change the legislation during their remaining term in office.

(2) Our Present Policy

We have declined to give Brazil a sizeable standby credit or new outright loan because this would relieve the pressure now on Brazil to do everything in its own power to solve its problems. We have suggested a close mutual continuous review of Brazil's developing financial situation with a definite statement that the U.S. is ready to cooperate. This is sound financial practice but is leading to an unsuccessful impasse because Brazil does not agree. The administration is becoming desperate. It will not face political fights in Brazil and insists that the U.S. must come to the rescue. It is becoming bitter about our "refusal" to do so. We now must draft a reply to Brazil's latest proposal that we take over $138.5 million of its already committed obligations in 1955 for U.S. imports other than petroleum. If our reply is negative, a bitter reaction is likely. Government officials and the press will probably claim that the U.S. has abandoned Brazil in its worst crisis in years.

(3) A New U.S. Approach

A concrete suggestion as to what we are willing to do at this moment might help resolve the short run situation.

1) The U.S. is seriously concerned at the reported current decrease in export earnings and is willing to discuss immediately cooperative plans to help resolve the financial situation facing Brazil in the first quarter of 1955.

2) The U.S. again offers to work closely with a representative of Gudin's choice and believes this is necessary.

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298. Telegram From the Ambassador in Brazil (Kemper) to the Department of State[1]

Rio de Janeiro, January 20, 1955—1 a.m.

679. Eyes only for Under Secretary Hoover. At farewell luncheon today given by American Chamber of Commerce, Foreign Minister Fernandes talked informally with two prominent American members. He expressed bitter disillusionment with US policy toward Brazil and was intransigent in face attempted replies. Foreign Minister cited failure US lend Brazil desperately needed financial assistance and contrasted this with generosity toward other countries specifically Italy.

This is further example of progressive deterioration Brazilian attitude toward US since Rio Economic Conference. From top-level conversations with US delegates at conference, Brazil assumed tangible US aid would be forthcoming. US refusal with respect definite financial assistance probably responsible for exaggerated importance they place on our rigid position with respect surplus wheat deal.

I feel that our willingness to accommodate Brazil in surplus sale matter would have favorable political and psychological effects here and beyond that we should give them reassuring answer in re Embtel 662.[2] My considered opinion is that Export-Import Bank willingness to take over committed obligations for at least first six months would do much to assist in reestablishing Brazilian confidence in US and in enabling Brazilian Government to prevent what might prove complete blow-up.

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[1] Source: Department of State, Central Files, 832.10/1-2055. Confidential.

[2] In telegram 662, January 15, Ambassador Kemper reported a long conversation which he had the previous day with Gudin regarding Brazil's financial situation. The Ambassador had asked Gudin if he wished to present a concrete proposal for helping to solve Brazil's economic problems and Gudin had proposed that the Export-Import Bank take over Brazil's already committed obligations for U.S. imports other than petroleum for 1955. (*Ibid.*, 832.10/1–1555)

I am fully aware of the risk involved in extending financial assistance to Brazil but as a businessman, I feel it justified and as Ambassador essential to our national interest.

Kemper

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299. Memorandum of a Conversation, Department of State, Washington, January 22, 1955[1]

SUBJECT

Brazil: Economic Problems

PARTICIPANTS

Mr. Edward J. Sparks, Deputy Assistant Secretary
Mr. Rollin S. Atwood, Director, Office of South American Affairs
Mr. S. J. Cottrell, OSA
Mr. Jack C. Corbett, OFD
Assistant Secretary Henry F. Holland
Mr. William V. Turnage, OFD

It was decided that in very general terms Brazil's economic problems arise from:

1. An annual cruzeiro budget which contemplates a huge deficit. The published budget of $56 billion cruzeiros contemplates a deficit of some 3.2 billion. In addition there are expenditures anticipated, but not included in the budget, which increase the deficit to 16 billion for calendar year 1955.
2. An economy whose dollar requirement exceeds those which it can reasonably be anticipated that the economy will earn under present policies.

Solutions of Brazil's problems require:

1. Reduction in estimates of cruzeiro expenditures. This can be accomplished by the President's vetoing some of the cruzeiro expenditures contemplated by the budget, a right given him by Brazilian law.
2. Adoption of coffee policies which will give the country chance to earn maximum income from sale of coffee and financial help from the United States.

It was felt that if Brazil would take measures to reduce its budgetary deficit and give assurances as to what its coffee policy will be, then the United States would be justified in setting up a series of monthly loans which we would be willing to make so long as Brazil fulfills its undertakings and furnishes full and complete information enabling us to determine the degree of her compliance.

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[1] Source: Department of State, Central Files, 832.00/1–2255. Confidential. Drafted by Holland. Holland forwarded a copy to Hoover.

The foregoing was discussed by Holland with Hoover who authorized the following program:

1. Urge Messrs. Overby from Treasury and Arey from the Export-Import Bank to proceed immediately to Brazil with a State Department officer. They would be requested to study in detail the existing situation in Brazil and attempt to obtain assurances from the Brazilians with respect to reduction of their budget deficits and with respect to their future coffee policy.

On the basis of the reports from this group the United States could determine what financing it will be justified in giving with reasonable assurance that the Brazilian Government will on its part do what is necessary to avert the financial crisis which can be averted only by its adoption of sound policies.

2. We shall urge Ambassador Dunn[2] to proceed to his post as quickly as possible.

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[2] James Clement Dunn was appointed Ambassador to Brazil on January 24; he presented his credentials to the Brazilian Government on March 11.

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300. Despatch From the Ambassador in Brazil (Kemper) to the Department of State[1]

No. 999 *Rio de Janeiro, January 24, 1955.*

SUBJECT

An Evaluation of the Café Filho Government in the Light of United States Policy

Summary

Although the Café Filho Administration had certain political advantages when it assumed office, the President has failed to provide the leadership needed to exploit the initiative which consequently is passing to the pro-Vargas forces, who have regrouped and are making a new bid for power. President Café Filho's decision to act as a caretaker instead of a leader also has prejudiced seriously the possibility of carrying out fully the administration's program for economic reform, forcing the Minister of Finance to operate largely within the limits of his ministerial powers. The United States probably could not have prevented this failure to assume effective leadership by large scale economic assistance, but is nonetheless being increasingly blamed, by Administration as well as opposition sources, for the Government's inability to solve Brazil's pressing economic problems. A climate of opinion is thus being created which is prejudicial not only to pending negotiations but also to basic United States-Brazil relationships. There is still an opportunity, however, for the United States to improve the climate and to bolster the Café Filho government by a sympathetic attitude and occasional concessions, and this opportunity should be seized to provide support for elements favorable to us and to impede the return to power of elements inimical to the long-range interests of the United States.

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[1] Source: Department of State, Central Files, 732.00/1–2455. Confidential.

[Here follows a detailed analysis of internal Brazilian developments.]

From the United States standpoint, the most serious development is the growing inclination to place the blame on the United States for not having moved rapidly and generously with respect to financial aid and to ascribe to this lack of outside aid the responsibility for the Administration's failure to supply courageous leadership. This viewpoint is beginning to take root among Brazilians who are normally our staunch supporters. Officials of the Government are discouraged and are tending toward a frame of mind which may prejudice the attainment of United States objectives and aid the election of individuals who may pose future serious problems for United States policy.

For obvious reasons these Brazilian officials ignore the fact that a policy of conciliation, caretaking, and drift would have been made easier by the availability of large-scale United States credits to alleviate immediate difficulties. It is entirely conceivable, for example, that even the limitation of bank credit and the cut in imports imposed successfully by Gudin could not be maintained if liberal United States financing were available. Also, without a secure political position looking toward the 1955 election, massive United States aid might in the long run have worked to the advantage of any irresponsible left-wing administration taking office in 1956.

Regardless of the arguments, the fact remains that President Café Filho's Government, with the exception of Minister Gudin, by now has lost most of its original political momentum, as well as public confidence in its ability to proceed in placing Brazil on the road to economic and political stability. This has permitted a regrouping of the former hard-core supporters of the Vargas Government. Their consequent resurgence as a political force has tended further to limit the Administration's field of maneuver. Furthermore, the adverse economic effects of the Vargas Administration's last acts (particularly the minimum wage revision and the coffee policy) are only now beginning to be fully felt, and the present Government is being blamed for the consequent economic suffering of the public. Consequently, there is little opportunity now for progress toward solution of basic economic problems, such as revision of the excessively nationalistic petroleum legislation.

The resurgence of the pro-Vargas group has now reached a point at which most conservative politicians seem to feel that the best result which can be expected from this year's presidential election would be the nomination and election of a "candidate of national union"; in brief, a coalition candidate who would be supported by virtually all the political forces, thus avoiding the political strife which is normal in an election campaign. In advancing the "national union" hypothesis, its proponents assert that the alternative would probably be a coalition of the former Vargas supporters with left wing political forces and the more short sighted members of the industrial community, which would be virtually assured of electoral victory. Such a situation, they continue, might set off a move by the military, probably headed by junior field-grade officers and designed to prevent a return to the practices of the Vargas Administration by seizing the Government by force. In such a case, they say, the only alternative would be a military dictatorship or, in the event of a split in the Armed Forces, civil strife.

In considering the present state of affairs, it appears rather clearly that once President Café Filho made the basic decision not to supply positive leadership, there remained little possibility of utilizing the Administration's term in office for the accomplishment of major political and economic objectives. In view of the President's personal character and the reluctance of his supporters to risk public protests, it is doubtful that the United States, even during the initial weeks of the regime, could have materially stiffened the political resolution of the present government or have achieved through it any immediate substantial improvement in Brazil's chaotic politico-economic situation. There has existed, however, and still does exist a chance for the United States to display its helpful intent, to aid the Administration in holding a moderately progressive course, and to strengthen its public prestige.

In spite of its weaknesses, the Café Filho Government is fundamentally well disposed toward the United States, which scarcely could be said of its predecessor, and has tried to place its nation's welfare above personal interests or petty political ambitions. We still have an opportunity to strengthen it politically, principally by displaying a sympathetic understanding of its problems and a willingness to make occasional economic concessions which can be exploited by it to domestic political advantage. It would be a misfortune of the first magnitude if we should fail to recognize and seize this opportunity, thus unwittingly weakening those Brazilian elements favorably disposed to us and contributing to the return in 1956 of the inefficient, opportunistic, and inimical forces which they replaced.

For the Ambassador
William C. Trimble
Minister-Counselor of Embassy

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301. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Director of the Office of South American Affairs (Atwood)[1]

Washington, January 24, 1955.

SUBJECT

Eyes Only Telegrams of Ambassador Kemper

I believe that you should gather up the various "Eyes Only" cables that the Under Secretary has been getting from Ambassador Kemper and draft a reply to go out from the Under Secretary. The reply should point out that the United States is eager to do everything that it properly can to meet Brazil's emergency; that we are loath to undertake a large aid or assistance program unless there is some assurance that it will be effective to avert a financial crisis in Brazil and that it will not simply be a measure to postpone a financial crisis; that we are working hard to achieve this end and are not getting the cooperation from the Brazilians on their cruzeiro deficit and on their coffee marketing policies that is essential. The purpose of the cable would be to complete the record in the event Ambassador Kemper ever publishes his cables in an attempt to discredit our policies in regard to Brazil.[2]

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[1] Source: Department of State, OSA Files: Lot 58 D 42, Brazil 1955—Economic (General). Confidential.

[2] The Department conveyed this message in telegram 602 to Rio de Janeiro, January 25. "US continues ready assist Brazil," the telegram reads in part, "but reluctant undertake aid or assistance program unless Brazilian Government ready, willing and determined take those measures which will ensure that assistance will avert and not merely postpone crises. Meanwhile US ready sit down and discuss concrete assistance program." (*Ibid.*, Central Files, 832.10/1–2555)

302. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, January 28, 1955.

SUBJECT

Requested Progress Report on Brazil (Reference Embassy Rio telegrams 662[2] and 679[3])

Discussion:

The telegrams from Rio, no. 662 of January 15 and no. 679 of January 20, are part of a series of over a dozen telegrams and telephone calls, the majority being addressed to the Under Secretary and to the Secretary, beginning January 1, 1955, and extending up until the Ambassador departed from Rio on January 26. The messages reflect a deteriorating political and economic situation in Brazil, together with a variety of actions to solve the problem recommended by the Ambassador with varying degrees of urgency and impatience.

The serious economic situation facing Brazil has long been recognized and lengthy discussions were held in Rio by Secretary Humphrey, Under Secretary Hoover and Assistant Secretaries Holland, Waugh and Overby, and others with the Brazilian Finance Minister. Following that an invitation was extended to Finance Minister Gudin by Secretary Humphrey and Under Secretary Hoover to appoint a special personal representative to carry on the continuing discussions with the Export-Import Bank and other Departments and agencies here in Washington. In the meantime, the Brazilian problem has had high level consideration in the Department and in many interagency meetings which included representatives from the Export-Import Bank, Treasury, Agriculture, Commerce and others, and has been reviewed in the OCB.

There exists justifiable doubt as to the urgency, the character and under what conditions financial assistance should be given to Brazil at this time. There exists no doubt as to the urgency of action to clear up any misunderstanding or lack of awareness on the part of the Brazilian Government that the United States continues to be sincerely ready, willing and able to cooperate in helping Brazil with its financial difficulties, but that the United States is reluctant to undertake an assistance program unless Brazil is ready, determined and able to take measures which will ensure that assistance will avert and not merely postpone a financial crisis. We are ready to sit down and discuss a concrete assistance program.

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[1] Source: Department of State, Central Files, 832.10/1–2855. Confidential. Drafted by Atwood.

[2] See footnote 2, Document 298.

[3] Document 298.

Current Action:

Mr. Paranagua, the Brazilian Finance Minister's personal representative, met with General Edgerton of the Export-Import Bank Thursday afternoon, January 27, and plans are laid to rapidly review the current financial situation in Brazil with complete frankness. A decision will then be made as rapidly as possible by the United States Government as to the type and extent of financial or other assistance to Brazil that the United States is prepared to offer at this time. High level representatives from the Export-Import Bank, Treasury and State will then proceed to Rio to discuss the entire problem with Finance Minister Gudin, Foreign Minister Fernandez and probably President Cafe Filho, and reach final agreement on a mutually satisfactory program. This action is scheduled to take place during the next two or three weeks.

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303. Memorandum From the Officer in Charge of Brazilian Affairs (Cottrell) to the Director of the Office of South American Affairs (Atwood)[1]

Washington, January 28, 1955.

SUBJECT

Brazil

My analysis of the present situation is as follows:

Brazil, by committing two serious economic blunders (a buying spree in 1951 and 1952, and attempting to hold the coffee price at 87½¢) has run out of cash and credit. They are now showing us deficits in 1955 and are asking us to pick up the check. At the same time they are pursuing two bad policies (coffee and petroleum) and the Café administration has decided to adopt a "caretaker" role and avoid serious political fights. If they can get through 1955 without a crisis or a fight and turn the mess over to the new President elected in October of this year, they will be happy. Consequently, they are desperate to have us help them avoid a crisis.

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[1] Source: Department of State, OSA Files: Lot 58 D 42, Brazil 1955—Economic (General). Confidential.

We can take several courses:

(1) We can do nothing. Let them stew in their own juice. This will embitter the present administration, which, despite their weak showing, is the best group of Brazilian leaders in decades. Since they are lame ducks, we need not worry about their personal feelings, but from a practical standpoint, without aid from us they might close the cashier's window some day early this year when they run out of dollars and leave commercial debts unpaid. This would cause pain to our export trade and strain our relations with Brazil.

(2) We can loan them what they ask for ($138 million). This may be too much; and allow them to relax, finance Petrobraz, and continue to follow a poor coffee policy.

(3) We can probe their figures and offer a loan which barely allows them to squeak through by maintaining an austerity program. This will relieve the political heat and avert an economic crisis but will postpone constructive reforms until the next administration (if then). I favor the third alternative, although I believe our relations with Brazil will never be on a sound basis until Brazil "puts its house in order." As long as they postpone reforms, they will be broke and crying for help. This dependent position cannot produce a healthy relationship.

The interested agencies (State, Treasury, and the Eximbank) have agreed that talks will commence with Paranagua and probably lead to a visit to Brazil. It has been suggested that in return for a new loan we extract a quid-pro-quo from Brazil to include assurances that they will:

a) Balance their internal budget;
b) Not allocate any dollars to Petrobraz;
c) Improve export policies, particularly coffee;
d) Provide accurate statistics on a current basis.

These "quids" should be handled carefully or they will backfire. Brazil's national budget is an internal affair and too much detailed attention to it on our part (even though we are their bankers) may produce considerable resentment against our meddling in their internal affairs.

. . . .

I believe we have the right pitch for the coffee problem; namely, to avoid insisting on removal of the floor price but urge that something be done.

Eximbank can ask and expect accurate statistics on a current basis.

. . . .

304. Memorandum of a Conversation, Department of State, Washington, February 3, 1955[1]

SUBJECT

Relations between Brazil and the United States

PARTICIPANTS

Ambassador João Carlos Muniz
ARA—Assistant Secretary Henry F. Holland
OSA—Mr. Atwood
OSA—Mr. Monsen

Ambassador Muniz called at the Department this afternoon to show Mr. Holland a copy of a letter from the Brazilian Foreign Minister, Raul Fernandes, in which the Minister expressed with some bitterness his opinion that the U.S. had adopted a narrow, "banker's approach" in its relations with Brazil.[2] Mr. Holland said that while he could understand the reasons for such apprehensions, Minister Fernandes was mistaken. The present situation in Brazil was a source of deep concern to him, Mr. Holland stated, and he and other officials in the Department had spent a great deal of time considering how best the U.S. could assist Brazil. Minister Fernandes and Finance Minister Gudin were working with great courage and ability to meet a most difficult situation and are held in the highest regard by this Government, Mr. Holland said. He regretted very much the view of the Foreign Minister that U.S. aid to Brazil is controlled only by economic considerations, and he said he hoped Ambassador Muniz could relieve Mr. Fernandes of this erroneous opinion.

Mr. Holland reviewed Brazil's economic problems, particularly the budget deficit, and the petroleum and coffee problems, and noted that these were all matters which only Brazil could solve, and that upon their solution depended any permanent economic progress. Additional loans from the U.S. will not, by themselves, solve Brazil's problems, and he pointed out that this method had been tried repeatedly over the past three years with no success. Mr. Holland said he was sure that all U.S. officials concerned with Brazilian affairs were anxious to help, but they wanted some assurance that additional U.S. aid would not merely postpone the crisis and defer the time when Brazil would act on those problems which it alone can solve.

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[1] Source: Department of State, Central Files, 611.32/2–355. Confidential. Drafted by Monsen.

[2] On January 20, Ambassador Muniz delivered this letter to Nelson A. Rockefeller, Special Assistant to the President. In a memorandum to Dulles, dated January 31, Rockefeller briefly summarized his meeting with Muniz and the contents of Fernandes' letter. (*Ibid.*, 611.32/1–3155)

The easiest course for the U.S. to follow would be to lend the Brazilian Government some money and let our assistance stop at that, Mr. Holland said. But because of our great friendship with Brazil and its importance in the hemisphere we would prefer to sit down with officials of the Brazilian Government to discuss its problems and see if, as good partners, we cannot assist Brazil in achieving a stable, healthy, and productive economy. It was for this purpose that the U.S. had requested Minister Gudin to name a representative to meet with officials of the Eximbank and the Treasury Department, Mr. Holland explained. Those talks have been helpful, he said, but the point has now been reached when it would be more productive to move the discussions to Rio where high officials of this Government could talk directly with Ministers Gudin and Fernandes. To this end, Mr. Holland asked Ambassador Muniz to talk to Mr. Paranagua and, in such a way as would not offend the latter nor imply any lack of respect for him on our part, suggest that it would be profitable to send a group from the U.S. Government to Brazil to continue the discussions. The Ambassador promised to do this.

Ambassador Muniz expressed the fear that Minister Gudin would think this was "just one more mission sent down to look at his books," and he stated that Gudin felt he had given us all the information available, and that in the past such missions had merely been used as a method of procrastination.

Mr. Atwood replied that this would not be the case, since one of the primary purposes of sending a group down would be to dispel the misconception that the U.S. was motivated mainly by economic considerations and to reassure the Foreign Minister that the traditional U.S.-Brazilian relations are of the utmost importance to us and that our government has every desire to maintain these close ties. Mr. Holland agreed and added that this group would go down to Rio to discuss Brazil's problems and needs and reach a conclusion.

As he was leaving, the Ambassador inquired about Mr. Holland's forthcoming trip through Central America with the Vice President. Muniz was told that it would be purely a good will trip, and he expressed the wish that it would be a pleasant one.[3]

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[3] See vol. VI, Document 195.

305. Memorandum of a Conversation, Rio de Janeiro, February 8, 1955[1]

PARTICIPANTS

Raul Fernandes, Minister of Foreign Affairs
Eugenio Gudin, Minister of Finance
Henry F. Holland, Asst. Secy. of State for Inter-American Affairs
William C. Trimble, Chargé d'Affaires, a.i.
Andrew Overby, Asst. Secretary of U.S. Treasury
Hawthorne Arey, Director of Export-Import Bank
Robert P. Terrill, Economic Counselor of Embassy

Immediately after Mr. Holland's arrival on the afternoon of February 8, 1955, the party proceeded to the Minister of Foreign Affairs for initial discussions.

Mr. Holland said that he had been greatly concerned by reports which had reached him from the American Embassy in Rio and the Brazilian Embassy in Washington that the Brazilian authorities feel that the United States regards the question of aid to Brazil in purely banking terms. He attached so much importance to eliminating this misconception that he considered it necessary to interrupt his trip to Cuba and Mexico with Vice President Nixon in order to explain our position directly to the Ministers of Foreign Affairs and Finance, Mr. Holland said he wished to assure both ministers that the United States looks on Brazil as an ally and a friend of long standing and that it desires to assist Brazil in its present difficulties in the role of a partner and not that of a banker, in the same way that Brazil had provided assistance to the United States in World War II. Mr. Holland continued that he regretted the delay which had occurred since Brazil's original request for assistance had been received. He knew the Brazilians felt that it had been overly long and he himself was inclined to feel the same way. Nevertheless, the delay did not imply any reluctance to aid Brazil, but rather was necessary to assure full consideration of the situation, including all pertinent statistical data and other related information. The cooperation of Dr. Paranagua had been most helpful to interested authorities of our government and he wished to express his appreciation of the latter's invaluable assistance. These studies had now been completed and we were now fortunately in a position to discuss the amount and nature of the assistance Brazil might require.

The United States had had a proposal which it was prepared to discuss with Mr. Paranagua, however, Mr. Holland felt that a more favorable plan, from the standpoint of Brazil, could be developed through direct conversations between himself, Assistant Secretary Overby of the Treasury and Mr. Arey of the Export-Import Bank, on the one hand, and the Ministers of Foreign Affairs and Finance and their associates, on the other.

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[1] Source: Department of State, Central Files, 110.15–HO/2–1155. Secret. Drafted by Trimble and Clarence A. Boonstra, First Secretary of the Embassy. Transmitted to the Department in despatch 1101 from Rio de Janeiro, February 11.

Mr. Holland then referred to the announcement which had just appeared, to the effect that between three and five per cent of Brazil's foreign exchange earnings would be earmarked for Petrobras. The ministers, he said, would appreciate that for domestic political reasons, it would be impossible for the United States to agree that any part of the financial aid which we proposed to extend to Brazil should be used to support the operations of a petroleum monopoly. The ministers replied that they could fully understand his position and that he need have no concern on that score.

Mr. Holland then raised the subject of aid which the United States had already provided to Brazil since the end of World War II. He pointed out that in the period mentioned, the Ex-Im Bank had authorized advances to Brazil in the amount of $830,000,000, of which Brazil had taken up in net of $650,000,000. This represented 44 per cent of all loans made by that agency. Furthermore, over 60 per cent of the value of military equipment furnished to the American Republics under MDAP had been allocated to Brazil. In addition, considerable aid had been extended to Brazil by the International Bank. Mr. Holland said he wished to mention these figures in order to show that we not only have been appreciative of Brazil's needs, but also have made substantial contributions to assist her.

Minister Gudin inquired whether the United States was concerned that Brazil might not pay her debts. Mr. Holland replied that he regretted this point had been raised since it was extraneous to the issue. The question before us was how the United States as a partner of Brazil could assist Brazil in its present difficulties.

Minister Gudin then described at some length the disappointments he had suffered during his visit to Washington last October when, hat in hand, he had knocked at doors which did not open. He felt there was a misunderstanding of Brazil's friendship and importance to us, and a strong tendency to regard its problems in strictly banking terms. After suffering a series of rebuffs, he had finally been able to raise a loan with private banks against Brazilian gold which, after all, was the best collateral you could have. It had been difficult for him to explain the reasons for Brazil's troubles since they did not result from crop failures, floods or other acts of God, but were occasioned by poor management and bad government in the past. He drew a parallel in this connection between the situation in Brazil and the management of Argentina's financial affairs in the past several years.

Minister Fernandes stated that what Minister Gudin had been saying concerned past history and could be dismissed from further discussion now that Mr. Holland had explained the position of the United States and its desire to aid Brazil.

At the close of the meeting, Minister Gudin invited Mr. Holland, Mr. Overby and Mr. Arey to his home for after dinner coffee and a more informal discussion.[2]

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[2] On February 9, Holland, Arey, and Overby met once again with Brazilian officials to discuss Brazil's financial problems. According to a memorandum of conversation drafted by Trimble and Boonstra, the question of U.S. assistance to Brazil was discussed and it was agreed that the Export-Import Bank would extend to the Banco do Brasil a line of credit of $75 million. This line of credit was to be made available during the next 6 months, in order to assist Brazil in financing minimum essential imports from the United States within its existing exchange budget. This memorandum was also enclosed in despatch 1101.

On February 14, Arey reported to the National Advisory Council on International Monetary and Financial Problems (NAC) on the details of the line of credit. According to the minutes of the meeting, he commented "that it was designed to stay within Brazil's austere import program and to avoid financing Petrobras imports." (*Ibid.*, NAC Files: Lot 60 D 137, Minutes) The agreement was signed in Washington on March 15; the text was transmitted in airgram 308 to Rio de Janeiro, April 19. (*Ibid.*, Central Files, 832.10/4–1955) For further information, see Export-Import Bank of Washington, *Twentieth Semiannual Report to Congress for the Period January-June 1955* (Washington, 1955), pp. 17–20.

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306. Letter From the Deputy Under Secretary of State (Murphy) to the Deputy Assistant Secretary of Defense for International Security Affairs (Davis)[1]

Washington, February 23, 1955.

DEAR ADMIRAL DAVIS: I take pleasure in referring to your letter of January 24, 1955,[2] requesting the Department of State to concur in a proposal of the Defense Department that United States military representatives initiate exploratory discussions with Brazilian military representatives on the subject of United States military facilities urgently required in Brazil.[3]

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[1] Source: Department of State, Central Files, 711.56332/1–2455. Secret. Drafted by Spencer on February 17 and rewritten by Robert Murphy on February 19.

[2] In this letter, Vice Admiral A.C. Davis, USN, requested Department of State concurrence in opening military discussions with Brazilian representatives. (*Ibid.*)

On the assumption that the approach to Brazilian military representatives will be made through the Joint Brazil-United States Military Commission, at Rio de Janeiro, the Department of State concurs in the Department of Defense proposal. The State Department would of course have no objection to United States military representatives being sent to Brazil for the purpose of assisting and advising United States members of the Joint Brazil-United States Military Commission during the exploratory discussions.

The Department of State would appreciate it if the Department of Defense would communicate the results of the exploratory discussions to the State Department as necessary background for any subsequent diplomatic negotiations which may be required for the purpose of obtaining the consent of the Brazilian Government to the establishment of United States military facilities in Brazil.

Sincerely yours,

Robert Murphy[4]

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[3] The Department of Defense required a U.S. Army communications facility and a U.S. Air Force guided missile tracking station.

[4] Printed from a copy which bears this typed signature.

387. National Intelligence Estimate[1]

NIE 93–55 *Washington, March 15, 1955.*

PROBABLE DEVELOPMENTS IN BRAZIL[2]

The Problem

To estimate the current situation in Brazil and probable developments through 1955.

Conclusions

1. The suicide of President Vargas in August 1954 and succession of the moderate-conservative Cafe Filho administration have not resulted in any fundamental change in the Brazilian situation. The economic situation remains precarious. Inflation continues largely unabated and the persistent dollar shortage is being met only by successive US loans. The political situation is affected by persistent social unrest, particularly in urban areas, and is aggravated by uncertainties relating to the presidential election to be held in October 1955. (*Paras. 11, 20, 44*)

2. The new president to be elected in October is likely to be a man committed to meet labor-leftist demands, assuming that free elections are held. The strongest labor-leftist candidate is Juscelino Kubitschek, governor of Minas Gerais and a former adherent of Vargas. The election of such a man is likely to create a political situation similar to that which existed under the Vargas regime; i.e., chronic political tension between the executive and moderate-conservative elements, in Congress and especially in the armed forces. The military would be confronted with a hard choice between condoning further evolution to the left or immediately imposing a government to their liking. (*Paras. 23, 26*)

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[1] Source: Department of State, INR–NIE Files. National Intelligence Estimates were high-level interdepartmental reports appraising foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the CIA, approved by the IAC, and circulated under the aegis of the President, appropriate officers of cabinet level, and the members of the National Security Council. The Department of State provided all political and some economic sections of NIEs.

[2] According to a note on the cover sheet, the following intelligence organizations participated in the preparation of this estimate: the CIA and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff. All members of the IAC concurred with the estimate on March 15 with the exception of the representatives of the Atomic Energy Commission and the Federal Bureau of Investigation, who abstained on the grounds that the subject was outside their jurisdiction.

3. A moderate-conservative could be elected in a free contest only if the labor-leftist vote was seriously split. Such a candidate, elected with multiparty backing and the approval of the military, could probably enlist sufficient congressional cooperation to effect some improvements in the economic situation. A moderate-conservative regime would be unlikely to antagonize politically vocal conservative elements, and would be in a position to employ force, if necessary, to suppress social unrest. (*Paras. 21, 24, 25*)

4. There is little chance that the administration to be elected in October will be able to deal effectively with Brazil's deep-seated and politically dangerous economic difficulties. In fact, as long as any Brazilian administration assumes that dollar loans are readily available, there is little likelihood that it will incur the political risk involved in stabilizing the economy. However, the administration would be even less willing to follow politically dangerous policies in the absence of dollar loans. Rather, it would be under extreme pressure to seek radical, nationalistic solutions to Brazil's economic problems. In any case, effective action over an extended period will be required to stabilize the Brazilian economy. (*Para. 47*)

5. The Brazilian Communist Party, although outlawed, has approximately doubled in numbers during the last two years. It is now estimated to have 100,000-120,000 members and a much larger number of sympathizers. For some time to come, it will probably continue to increase in numbers and political influence. It is unlikely, however, that the party could, within the foreseeable future, gain sufficient strength to take control of Brazil by electoral means or by force. (*Paras. 27, 34*)

6. Brazil will almost certainly continue to support the US on major issues between the US and the Soviet Bloc, but, if not granted the special consideration to which it feels entitled, with particular reference to dollar loans, may pursue an increasingly independent course. Brazil will seek to establish closer economic relations in Latin America and with Western Europe, and will also seek to increase its now minor nonstrategic trade with the Soviet Bloc. (*Para. 57*)

7. Brazil will continue to oppose Argentine bids for leadership in Latin America and the development of an Argentine-led bloc. Fundamentally, Brazil deprecates the idea of competing blocs in Latin America and promotes instead the concept of Hemisphere solidarity. (*Para. 55*)

8. In the event of general war, Brazil would almost certainly participate actively in support of the US. (*Para. 56*)

Discussion

I. Introduction

9. Brazil is a major power within the Latin American community. It exercises considerable influence in both the Organization of American States and the United Nations. Moreover, Brazil is strategically located with respect to sea and air routes in the South Atlantic and is an important source of strategic materials, notably metallurgical manganese, quartz crystals, beryl ore, mica, tungsten, tantalite, and castor oil. It is the only Latin American country with known sizeable deposits of atomic energy raw materials, principally thorium. The Brazilian armed forces are capable of making an important contribution to Hemisphere defense. Traditionally, Brazil has cooperated closely with the United States on important international questions.

10. Except in some geographical areas (e.g., Sao Paulo) little progress has been made in developing Brazil's large human and material resources. The national economy continues to depend on exports of agricultural products. Earnings from these exports have not been sufficient to sustain the postwar rate of industrial development, while at the same time economic nationalism has impeded foreign investment. The industrialization which has occurred since 1930 has been accompanied by severe inflation and by economic and social strains felt particularly by the rapidly growing urban population.

11. Heavy migrations from the back country into the cities have brought hundreds of thousands of Brazilians into their first contact with higher standards of living, glaring inequalities, and the insecurity of urban existence. Acutely distressed by inflation, the urban masses generally are increasingly dissatisfied with their level of living and clamorous for improvement. At the same time middle and upper class conservatives, including Army leaders as well as commercial and industrial interests, have been disturbed by the adverse prospects for maintaining a high rate of economic development and by the growth of labor-leftist and Communist strength, which threatens their dominant position in Brazilian life. The conflicts and tensions which inevitably arise in such time of rapid economic and social change are continuously exploited in Brazil by both extreme nationalists and Communists. Brazil, however, has been less subject to political violence than most Latin American countries.

II. The Political Situation and Prospects

The Collapse of the Vargas Regime

12. The present administration came to power in August 1954 as a result of the suicide of President Getulio Vargas. The Vice-President, Joao Cafe Filho, thereupon succeeded constitutionally to the presidency for the remainder of Vargas' term (until 31 January 1956). An understanding of the character of the Vargas regime and the causes of its collapse is prerequisite to an estimate of the present political situation and prospects.

13. Vargas was an astute politician who shrewdly manipulated opposing factions and successfully posed as the friend of the common people. During his first period in power (1930–1945) he established the quasi-fascist "New State" as an ideological facade for his strong personal rule. He espoused cultural and economic nationalism, established federal control over the states, abolished political parties, suppressed all opposition of both the left and right, undertook government intervention and initiative in economic development, promoted industrialization, concerned himself with amelioration of the living conditions of the urban masses, extended the franchise, and sought to mobilize and control urban labor as a political force through government-sponsored labor unions. It was during this period that urban lower income groups began to become an important factor in Brazilian politics.

14. In 1945, in response to a growing opposition to totalitarianism, the Brazilian Army quietly deposed Vargas and established a more normal federal republican regime with General Eurico Gaspar Dutra as constitutionally elected president. The two principal political parties which emerged were the Social Democratic Party (PSD) and the National Democratic Union (UDN). Both were heterogeneous in composition, but received their direction primarily from upper middle class elements and were correspondingly moderate-conservative in political outlook. The primary difference between them was that the PSD was led by men who had been prominently associated with Vargas in the "New State," while many leaders of the UDN had opposed Vargas.

15. The moderate-conservative Dutra administration failed to cope effectively with the growing economic hardships suffered by lower middle class and labor groups. Partly as a result of this failure, Vargas was able to retain a large personal following and to build up a personal political machine—the Brazilian Labor Party (PTB)—based primarily on organized labor. In the 1950 presidential campaign Vargas exploited both the discontent of lower income groups and the ineptitude of conservative political leaders. He was elected with 49 percent of the popular vote, as against 30 percent for his nearest

competitor. However, moderate-conservatives (the PSD and UDN) continued to predominate in both houses of Congress and to control most state and municipal governments.

16. Vargas was no more successful in coping with Brazil's mounting economic difficulties than his predecessor had been. In contrast to the vigor and self-confidence of his earlier rule, his policy was indecisive, largely because of his lack of an assured majority in Congress. Although the PSD generally supported him, it did so at a policy price which tended to alienate his labor-leftist following and its continued support could not be relied upon. Moderate-conservatives in general continued to distrust him on account of his past record, his labor-leftist associations, his apparent indifference toward Communism, and his known tendency to subordinate pressing economic considerations to the requirements of political expediency. By vacillating between policies designed to gain moderate-conservative support and measures calculated to regain the loyalty of his indispensable labor-leftist following, Vargas forfeited the confidence of both groups.

17. By early 1954 the economic and political situations in Brazil were both extremely precarious. Policies pursued under moderate influence had temporarily averted a foreign exchange crisis, but inflation continued unchecked. With congressional elections approaching, Vargas turned again to the left, the symbol of this decision being a decree doubling the minimum wage regardless of the economic consequences. By adroit politics, Vargas managed to maintain his position despite conservative efforts to oust him on this account, but political tension was raised to such a point that this regime was vulnerable to any political accident. The accident occurred when an Air Force officer was killed by Vargas henchmen who were attempting to assassinate an editor who had been vociferously critical of the regime. The public reaction excited by the Air Force investigation of this affair deprived Vargas of popular support at a time when moderates and conservatives were already out to get rid of him. In these circumstances the Army and Navy acceded to Air Force demands that Vargas be forced to resign.

18. This political intervention by the Army, as the dominant military force, was in keeping with Brazilian traditions. The Army normally remains aloof from politics, supporting the incumbent government, whatever its political complexion, but the Army also considers that it has an overriding responsibility for the preservation of order and of established institutions. It had already warned Vargas, in February 1954, when it demanded and obtained the dismissal of his Minister of Labor. It acted in August, not only in response to Air Force pressure, but also to check the administration's

sharp trend to the left and to avert the implicit danger of serious civil disturbances.

The Cafe Administration

19. Cafe Filho's known personal integrity and political independence raised hopes that he might succeed where Vargas had failed in providing effective solutions for Brazil's politico-economic difficulties. Although himself politically left of center, Cafe had come to power with the support of the moderate-conservatives and the military. His cabinet includes representatives of all the principal parties as well as men without party affiliation. For the first time in recent years the Brazilian cabinet is composed predominantly of men of high intellectual and moral character, concerned primarily with the national welfare rather than with personal or party interest.

20. As was the case with its predecessors, the new administration's most pressing problems are economic, particularly the foreign exchange shortage and inflation. It has attempted to meet them by advancing a program of retrenchment and austerity such as no Brazilian government has hitherto dared to propose. Government expenditures have been reduced and government support of industrial expansion has been withdrawn. In large part, however, the administration's retrenchment program has been frustrated by lack of support in Congress. Inflation has not been substantially retarded.

21. The October 1954 congressional elections failed to provide a clear mandate for or against the Cafe program. The moderate-conservative parties retained a combined majority in Congress and could enact the Cafe program if they united to do so. Party discipline in Congress is lax, however. Moreover, party politicians are understandably disinclined to vote for tax increases, credit restrictions, reduction of agricultural price supports, or curtailment of working class benefits in a presidential election year.

The Approaching Presidential Election

22. Party preparations for the presidential election to be held in October 1955 are taking place in unusual circumstances. For twenty-five years Brazilian politics have taken the form of support for or opposition to Getulio Vargas. His death has removed their accustomed point of reference. The labor-leftist elements who followed him are now leaderless, but otherwise moderate politicians are tempted to compete for the labor-leftist vote, realizing that the direction which it takes will probably determine the outcome of the election. On the other hand, the armed forces are taking a greater than usual interest in politics. They are strongly opposed to the election of a Vargas-associated labor-leftist, and, if political develop-

ments should tend toward that result, they might intervene to prevent the election of such a candidate.

23. In order to avoid incitement of the masses by competing candidates, and also to ensure the election of a president satisfactory to themselves, the armed forces have favored the idea of a coalition of all major parties in support of a single candidate more or less committed to carry out the policies of the Cafe administration. The UDN has been receptive to this idea. The PSD, however, under the influence of its pro-Vargas wing, had chosen to nominate Juscelino Kubitschek, the governor of Minas Gerais, and to seek a coalition with the labor-leftist PTB. The PTB is not yet ready to commit itself to Kubitschek and the PSD, but could probably be persuaded to do so by proper political concessions. In conjunction with Kubitschek's popular appeal, a PSD–PTB combination would probably be sufficient to ensure his victory in a free election. It might, however, provoke military intervention in the election—unless the military were privately persuaded that Kubitschek, in office, would pursue acceptable policies.

24. The outcome of the election will depend primarily on whether the bulk of the labor-leftist vote can be won by Kubitschek (or any other single candidate), or whether it will be divided among many candidates. The latter contingency is a possibility. Other potential candidates with labor-leftist appeal are Adhemar de Barros, Janio Quadros, and Estillac Leal, representing diverse factions. The election of a moderate-conservative to the presidency of Brazil would be possible only in the event of a serious division of the labor-leftist vote.

25. The action of the UDN will be greatly influenced by the prospect for division of the labor-leftist vote. Against a PSD-PTB coalition, the UDN would be likely to seek a corresponding coalition with Janio Quadros, the independent leftist governor of Sao Paulo. If, however, it appears that the labor-leftist vote will be divided, the UDN might nominate a moderate-conservative with military connections, such as General Juarez Tavora.[3]

26. The next president of Brazil is likely to be a man (such as Kubitschek) committed to pursue labor-leftist policies. The election of such a president would create a political situation similar to that which existed during the Vargas regime. The armed forces would be confronted with a hard choice between condoning further evolution to the left, at the risk of eventually losing their power to act as arbiter in Brazilian politics, or immediately imposing a government to their liking, at the risk of precipitating bitter internal dissension between labor-leftist and conservative-military elements and possi-

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[3] Chief of the President's Military Household.

bly severe civil disturbances. The prospect, at best, is for continuing political tension in Brazil.

The Communists

27. The Brazilian Communist Party (PCB) lost strength after it was outlawed in 1947. However, since 1951 (when Vargas returned to power), and especially during the last two years, it has had remarkable success in raising funds and recruiting new members. It is now estimated to have 100,000 to 120,000 members and a much larger number of sympathizers. It draws its chief support from urban labor and lower middle class groups, although the leadership of the party is composed largely of professional men and intellectuals. Retired military personnel also have been active in the leadership of front organizations. For the present, the party's primary effort is directed toward the consolidation of its recent gains, rather than toward further expansion. The Communists not only maintain numerous newspapers for the dissemination of propaganda, but have also established an extensive school system for the indoctrination of party cadres. They talk of developing the party in accordance with "the Chinese revolutionary pattern": i.e., by agitation and organization among the peasants leading to guerrilla resistance in the back country and to eventual revolution. Their present strength is concentrated in and around the city of Rio de Janeiro, in the important state of Sao Paulo, and in the strategic "hump" of Brazil.[4]

28. The PCB appears to have two immediate objectives: (a) to stimulate and exploit popular discontent in order to discredit moderate-conservative government, and (b) to stimulate and exploit anti-US nationalism in order to neutralize Brazil as an effective ally of the United States. A good example of Communist technique is the agitation, in conjunction with that of non-Communist ultranationalists, which contributed to enactment of the existing law excluding foreign capital from participation in the development of Brazil's petroleum resources.

29. Vargas was largely indifferent to the rapid revival of Communism in Brazil during his presidency. No Communist sympathizer himself, he presumably supposed that he could control the situation. His indifference, however, permitted intensive Communist infiltration of some labor organizations, and, to a lesser extent, of the bureaucracy and the armed forces.

30. The Cafe administration has taken some action to neutralize this Communist infiltration. Military officers of known Communist sympathies have been retired or reassigned; known Communists

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[4] The attached map shows more fully the distribution of Communist strength in Brazil. [Footnote in the source text. This map is not printed.]

among the enlisted personnel are being court-martialed. Communists are also being removed from positions of labor union leadership. As yet, however, little has been accomplished toward removing Communists from the bureaucracy or from elective public office.

31. Possibly because the Brazilian Catholic Church underestimates the strength of Communism in Brazil, it has not engaged in a militant campaign against Communism. In any case, Church influence in Brazilian politics is usually weak.

32. Inasmuch as the Communist Party, as such, is still outlawed, Communist political action must be effected through other political parties. The extent of Communist penetration of other political organizations is unknown; it may be extensive in the PTB. In the 1954 congressional election at least five Communists and Communist sympathizers, running under non-Communist party labels, were elected, as compared with one such deputy in the previous Congress.

33. The Brazilian Communists may be able to derive advantage from Vargas' suicide and from his "political testament," which coincided remarkably with the Communist Party line. Their previous condemnation of Vargas has been obscured by their effort to incite a violent popular reaction to his suicide. They now are able to claim him as a martyr to "Yankee imperialism." Furthermore, in the forthcoming presidential election they will be in an advantageous position to push their united front program, auctioning a large bloc of assured votes in exchange for political concessions.

34. For some time to come, the Brazilian Communist Party will probably continue to increase in membership and political influence. It is not likely, however, that the party could, within the foreseeable future, gain sufficient strength to win direct control of Brazil by electoral means or by force. Its influence on Brazilian policy will be exerted through the popular pressures engendered by its exploitation of social discontent and nationalist tendencies in the non-Communist population.

III. The Economic Situation and Prospects

35. Brazil has the greatest economic potential of any country in Latin America. Territorially larger than the United States, it has a fast-growing population of about 58 million, which is about double that of the next largest Latin American republic (Mexico). Although agriculture occupies over two-thirds of the population, only five percent of the arable land is cultivated. Nevertheless, Brazil is the world's largest producer of coffee and bananas, ranks second in the production of cacao and citrus fruits, and is at least in fifth position in the production of sugar, tobacco, corn, and cotton. Brazil's herds of cattle and pigs are fourth largest in the world. Although much of the country remains to be explored, Brazil is believed to have the

resources for self-sufficiency in most of the major minerals, the principal exceptions being tin, zinc, lead, copper, sulphur, and coal. Brazil is an important area for US trade (trade both ways in 1953 was approximately $1.1 billion) and for direct investment of US private capital. By 1953 such investment totalled slightly over $1 billion.

36. Brazil's economic growth since 1930 has been rapid. Since the end of World War II gross investment has amounted to about 16 percent of GNP annually, the overwhelming proportion of which has been devoted to industry and construction. GNP increased about five percent annually from an estimated $10.8 billion in 1950 to $12.5 billion (at 1950 prices) in 1953. By 1951 the manufacturing sector (including construction) had come to contribute 24.5 percent to total GNP, thus equaling the contribution made by the agricultural sector. Brazil has continued, however, to rely overwhelmingly on agricultural and animal exports for foreign exchange earnings. Such exports, except during World War II, have accounted for well over 90 percent of Brazilian exports, with coffee contributing between 40 to 70 percent. (Brazil normally supplies about one-half of US coffee imports, thus acquiring the foreign exchange which has permitted Brazil to become one of the important American markets for machinery and vehicles. During 1953 and 1954 Brazil supplied only 40 percent of the US coffee market, however. In the latter year the decrease was particularly serious for Brazil, since total US coffee imports were off 19 percent under the impact of an unprecedentedly high coffee price.)

37. Divergences in the rate of growth between the various sectors of the economy have given rise to serious maladjustments. Rapid industrial expansion has not been accompanied by a proportionate development of transportation and power facilities. Agricultural and mining production for export has been neglected in favor of manufacturing industries. Moreover, emphasis upon capital goods industries within the industrial sector tended to create an imbalance between the supply of and effective demand for consumers' goods. Inadequacies in basic productive facilities and high cost of distributive services contributed to high unit costs of consumer goods, maintained and encouraged by a deliberate policy of protection through tariff and foreign exchange regulations.

38. The rapid growth of the Brazilian economy has occurred under conditions of uninterrupted inflation. In the last 15 years the cost of living has been increasing at an annual rate of more than 16 percent; in the first 11 months of 1954 the cost of living rose 22 percent. Prices at the end of 1954 were about 770 percent above those in 1939. This rate of price increase is of a different order of magnitude from that historically experienced by Brazil, namely,

about 2.5 percent annually. In general, wages have lagged behind prices. The inflation has been the result of several factors. For some years prior to 1947, it was stimulated by the accumulation of substantial foreign exchange surpluses, which Brazil was unable to convert into consumers' goods. Since 1947, domestic factors such as government deficits and the expansion of credit have fostered the inflation. Of considerable importance also has been the fact that a large proportion of investment was of the long-term variety which did not result in an increased output of consumer goods.

39. Brazil's effort to maintain the rate of industrialization, even at the cost of severe inflation, has led to recurrent foreign exchange shortages. In order to permit domestic industry to purchase its needed imports cheaply, a highly inflated value for the cruzeiro was maintained. This over-valuation caused a weakening of the competitive position of Brazilian exports and a concurrent loss of foreign exchange. At the same time expansion of industry stimulated Brazil's demand for raw materials, capital goods, and fuels, most importantly petroleum. Although industrial production was able to provide significant foreign exchange earnings during World War II, during the postwar period it was unable to compete with the older industrialized countries, in part because of the over-valuation of the cruzeiro. In the same manner, although the Brazilian Government has insisted in recent years that new foreign investment be "constructive," it has given greater emphasis to further industrialization than to investments that would produce foreign exchange. Consequently the drain on foreign exchange resources caused by Brazil's rising industrial production has been unmatched by new foreign exchange earning power.

40. Brazil's foreign exchange difficulties are dominated by the large and increasing demand for fuel imports. About one-third of anticipated 1955 dollar receipts are allocated to petroleum imports. The wisdom of securing foreign capital to find and exploit the domestic petroleum resources, which have been inferred from Brazil's geological structure, has long been recognized by many prominent Brazilians, in view of the lack of good coal reserves and poorly located hydroelectric resources. In 1953, however, extreme nationalists and Communists spearheaded passage of legislation establishing a government petroleum monopoly and excluding foreign capital, and they have since prevented a modification of the legislation by the new administration. Brazil's monopoly is not likely to succeed except, perhaps, over the long term, because of the country's lack of funds and technical skill. Yet, in the absence of indigenous fuel resources, further economic growth will place increasing strains on the already inadequate foreign exchange resources.

41. During 1953 a serious attempt was made to meet the foreign exchange problem. Early in the year the Vargas administration was faced with a foreign exchange crisis and a large commercial debt backlog, which was temporarily resolved by a $300 million Export-Import Bank loan. Shortly thereafter a new Finance Minister, Oswaldo Aranha, attempted to reorient the economy to eliminate some of the obvious causes of disequilibrium. He made a determined effort to stimulate exports by providing subsidies and exchange incentives. Simultaneously, he initiated a foreign exchange system which restricted the volume of all imports, but especially the less essential ones. Particularly important was the preference given through exchange control to the development of the retarded basic service industries such as transportation and power. Aranha failed, however, to secure adequate executive or congressional support. The executive branch feared that a curbing of inflation with the consequent restriction of industrial development would seriously undermine Vargas' already weakened political position. The Congress, on the other hand, refused to accept the political risk involved in opening Brazilian oil to foreign investment. Both Congress and Vargas apparently hoped that large coffee exports at favorable prices would postpone or eliminate the problems of drastic internal economic readjustment.

42. However, coffee prices weakened in May 1954, seriously aggravating Brazil's economic position. Vargas then attempted to peg the price of coffee, a move which resulted in a serious curtailment in Brazil's volume of exports and earnings of exchange. Commercial exchange obligations once again rose to serious proportions. At the same time inflation was permitted to run, fed by treasury deficits, expansion of bank credits, and the de facto devaluation of the cruzeiro. The price-wage spiral was put into motion once again by a series of wage increases, particularly by the doubling of minimum wages decreed by Vargas as of 1 May 1954.

43. The Cafe administration has demonstrated its awareness of the necessity for politically unpalatable measures to meet Brazil's economic difficulties. However, it has not felt itself sufficiently strong politically to propose such basic reforms as restriction of wages, abandonment of coffee stabilization, or the admission of foreign capital for petroleum development. Moreover, congressional cooperation has not been forthcoming.

44. On taking office the Cafe administration was immediately faced with a foreign exchange crisis which was met with the help of a $200 million loan from US banks. At the same time it undertook a program to raise exports and reduce imports, particularly in relation to the dollar area. The trade pattern planned for 1955 provides for imports from convertible currency areas (primarily the US) in the

amount of $532 million, a sharp decrease from the $755 million of 1954. The machinery for implementing this decrease lies in a purely administrative reduction of the dollar exchange auctioned to importers. Such a reduction is probably feasible since some imports can be shifted to the nonconvertible account where there is little payment difficulty except in connection with sterling. Exports to the convertible currency areas are to be raised from $580 million in 1954 to $720 million in 1955. Brazil's recapture of its traditional share of the American coffee market will be essential to the realization of this export goal.

45. The major deterrent to adequate coffee sales in the past eight months has been the price stabilization program instituted by Vargas in the last months of his regime, with nationalist overtones of "protecting" Brazilian coffee interests from "international financiers." Under the program a minimum export price was established, and the Bank of Brazil granted to coffee interests loans equaling 100 percent of the value of the coffee stocks, valued at the equivalent of a New York price of 87 cents per pound. When the policy was instituted it was hoped that the New York price would be forced up. In fact, it has decreased about 33 percent, mostly in two stages, in August 1954 and February 1955. Meanwhile the coffee interests are still receiving the same minimum cruzeiro price and are under no financial pressure to dispose of their stocks, and foreign exchange receipts from coffee sales are running below Brazil's minimum requirements. As a result of this, Brazil was forced to seek new financial aid early this year. On 9 February 1955 the Export-Import Bank granted a $75 million credit which Brazil may draw on at a rate of $15 million monthly, if necessary to meet the estimated minimum dollar exchange requirements. International financial commitments in dollars, which cannot be further postponed, require foreign exchange earnings (including drawings under the new $75 million Export-Import Bank credit) of at least $60 million monthly; such earnings can be obtained only from exports of coffee to the United States in greater quantity than in January. If this does not take place, the use of cash balances and existing borrowing rights from private American banks might close the gap for a short time, but subsequently Brazil would again seek US Government aid. The Brazilian Government may believe that American exporters, alarmed at the loss of their markets in Brazil to European firms unaffected by the dollar shortage, would successfully press the US Government to grant effective financial aid.

46. The Cafe administration recognizes the need to check inflation, but, in the existing political situation, the courses open to it are narrowly circumscribed. It has also proposed new taxes in order to reduce its deficit spending, but could obtain from Congress only

one-third of the tax increase requested. It thereupon undertook to reduce government expenditures, but has actually been obliged to grant to its civil and military employees "temporary" pay increases not provided for in the budget. Moreover, the Brazilian Government is responsible, in the public mind, for the country's continued economic growth, and is therefore under heavy pressure to maintain a high rate of economic activity. A continued decline in the rate of private investment, such as occurred in 1953–1954, would probably compel the government to resume expenditures for public works, even though it is fully aware of the inflationary effects of such a policy. Consequently, there is little prospect that the Cafe administration can substantially retard the progress of inflation.

47. In these circumstances (paras. 43–46) the Cafe administration cannot be expected to accomplish much toward the solution of Brazil's deepseated and politically dangerous economic difficulties. The administration to be elected in October 1955 will have to face the same problems. There is little prospect that it will have the political strength to impose drastic remedies. In fact, as long as any Brazilian administration assumes that dollar loans are readily available, there is little likelihood that it will incur the political risks involved in stabilizing the economy. However, the administration would be even less willing to follow politically dangerous policies in the absence of dollar loans. Rather, it would be under extreme pressure to apply radical, nationalistic solutions to Brazil's economic problems. In any case, effective action over an extended period will be required to stabilize the Brazilian economy.

IV. The Armed Forces

48. The Brazilian armed forces, organized and trained on US lines, have an over-all strength of approximately 204,000. The Army, numbering 108,000, consists of 7 infantry, 1 armored, and 4 cavalry divisions, numerous separate combat units, and supporting troops. In addition, there are 55,000 militarized police available for local and regional use. The Navy, with a personnel strength of 21,000, has a combat force of 2 light cruisers, 7 destroyers, and 32 smaller escort, patrol, and mining vessels. Two additional destroyers now under construction may become available during 1955. The Air Force, with a personnel strength of 20,000 (including about 1,000 pilots), maintains 5 fighter, 2 light bomber, 2 patrol, 2 reconnaissance, and 2 transport squadrons. It has about 950 combat, reconnaissance, and transport aircraft, including 68 British jet fighters.

49. The operational effectiveness of the three combatant services is high by Latin American standards as a result of their reorganization, re-equipment, and operational experience with US forces in World War II, and of the assistance of US military missions. Their

effectiveness is impaired, however, by a lack of adequate support facilities, poor maintenance and general obsolescence of equipment, and dependence on foreign sources for resupply of material, munitions, and fuel. A severe dollar shortage and the high cost or unavailability of US military supplies have caused Brazil to turn to Europe for some aircraft and military equipment, to the detriment of Hemisphere arms standardization. However, procurement from this source is also severely limited by fiscal considerations.

50. Brazil participates actively in the Inter-American Defense Board and has a bilateral military assistance agreement with the US.[5] Under this agreement, Brazil has designated certain units as available for Hemisphere defense, including service outside its own national territory. With MDAP support, the equipment and training of these units will be improved.

51. The Brazilian armed forces are adequate to maintain internal security and to deter aggression by any neighboring power. They could not repel a major overseas invasion without US assistance. In the event of general war they could probably protect strategically important installations and facilities from extensive sabotage and from possible raids. The Brazilian Navy and Air Force have limited convoy escort and antisubmarine warfare capabilities, but effective patrol of the long Brazilian coast would require the active participation of US forces. With US logistic support the Army could provide a small expeditionary force.

V. Probable Foreign Policy

52. Brazil has traditionally regarded itself as the particular friend and ally of the US in Latin America. With a self-confidence based on its vast extent and relative political stability, it has considered itself superior to its Spanish-speaking neighbors and the natural associate of the US. Moreover, the US is by far Brazil's most important coffee market and the only important source of needed financial and technical aid. For these reasons Brazil strongly desires the friendship and support of the US and is highly sensitive to any US tendency not to accord Brazil special consideration and favor. At the same time Brazil is sensitive to any implication of US tutelage.

53. In recent years US-Brazilian relations have occasionally been impaired by growing Brazilian nationalism, which has produced friction in both economic and politico-military affairs. An important factor in this development has been a growing feeling in Brazil that the US undervalues Brazil's friendship and tends to take it for granted. In particular, Brazilians feel that US economic and financial

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[5] This agreement was signed at Rio de Janeiro on March 15, 1952, and entered into force on May 19, 1953; for text, see 4 UST 170.

assistance to Brazil has not been commensurate with Brazil's past services and present strategic importance to the US, or with Brazil's value to the US as a moderating influence in Latin America and in UN affairs. In common with other Latin Americans, Brazilians resent what they regard as the favored position of Europe and Asia respecting the amount and terms of US assistance.

54. Brazil has made no move to restore diplomatic relations with the USSR which Brazil severed in 1947. It maintains diplomatic relations with Poland and Czechoslovakia and has received a commercial mission from Hungary. Brazil's trade with the Bloc has increased markedly over the past year, but is still very small. There are mounting popular pressures for expanding relations with the Bloc. This idea is generally attractive because of Brazil's need to find new markets for its exports, and also probably at official levels as a means of strengthening Brazil's bargaining position vis-à-vis the US. Communists and their sympathizers are pressing the idea of large Bloc markets for their own ulterior purposes, with considerable nationalist support.

55. In the Latin American community, Brazil has always opposed Argentine bids for leadership. In particular, it has sought to counter Argentine designs on Uruguay, Paraguay, and Bolivia. Fundamentally, Brazil deprecates the idea of competing blocs in Latin America, and promotes instead the concept of Hemisphere solidarity.

56. Brazil's political and military leaders favor the concept of a collective Hemisphere defense, and they also seem opposed to neutralist positions in connection with broader international problems. In event of general war, Brazil almost certainly would participate actively in support of the US.

57. Brazil almost certainly will continue to support the US on major issues between the US and the Soviet Bloc. Barring an increase in the influence of the Communist and extreme-nationalist factions in the Foreign Office, Brazil will almost certainly continue to support the US on most important issues in Hemisphere affairs. Brazil's strategic materials will continue to be available to the US and it is likely that progress on the large-scale manganese development in northeastern Amapa will permit shipments to the US to begin in early 1956. However, a desire to strengthen its bargaining position vis-à-vis the US will be an important factor in Brazilian peacetime diplomacy, and frictions will almost certainly continue to occur, particularly on economic questions. Brazil will seek to establish closer economic relations in Latin America and with Western Europe, and will also seek to increase its now minor non-strategic trade with the Soviet Bloc.

308. Memorandum by the Officer in Charge of Brazilian Affairs (Cottrell)[1]

Washington, March 22, 1955.

BRAZIL—STATUS REPORT

Summary

Brazil's dollar deficit, internal inflation, and political turmoil are the outstanding characteristics of the present Brazilian situation. The present caretaker government refuses to institute necessary economic reforms, and political jockeying prior to the presidential elections this October prevents efforts to check the deteriorating situation. Primary U.S. objectives are to maintain Brazil's political orientation towards us, prevent Communist growth, and have Brazil reestablish economic stability. Alternative policies to achieve these goals include: (a) working out a "package" program with the Café administration setting forth what Brazil should do now and what the U.S. would be prepared to do; (b) going behind the present administration to the military leaders with a comprehensive program which the military should force upon the Café administration; (c) providing "stop-gap" assistance to keep the Café administration afloat until a new group takes over, either through elections in October or by a military coup. Then approach the new group with a comprehensive plan. *Conclusion:* Plan (c) is preferred in view of all factors involved.

Report

[Here follow sections I and II containing a detailed discussion of Brazil's economic and political problems.]

III—U.S. Objectives and Alternative Courses of Action

Our basic objectives in Brazil are to maintain a political orientation toward the U.S., to prevent Communist growth, and to have Brazil regain economic stability. Our immediate objective, in view of Brazil's deteriorating economic situation, is to prevent an economic breakdown. Our secondary objective is to promote economic rehabilitation. Alternative courses of action which we may pursue could be the following:

(1) Prepare a "package" which would include what Brazil must undertake in order to reestablish its economic stability together with what assistance the U.S. is prepared to give concurrently. We would insist that the Café administration abandon its caretaker policy and start immediately to take those measures necessary to meet the

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[1] Source: Department of State, Central Files, 732.00/3–2255. Secret.

situation. *Comment:* It is believed that this approach would be unsuccessful because the present administration is not politically prepared to carry forward a comprehensive program and the Brazilian Congress is not prepared to approve one during an election year.

(2) Establish liaison with the military figures behind the Café administration. These men would be told that strong measures are necessary now to prevent collapse and that the U.S. Government is prepared to assist if the military agree to force a comprehensive, constructive program at this time. *Comment:* This approach is also impractical because the military is primarily concerned with the defeat of Kubitschek and will not force a program which would certainly alienate many groups whose support is considered essential in the election. This measure would be a thinly veiled form of intervention in which we would underwrite the military in assuming control through extra-constitutional means. The repercussions and criticism of such a course could be disastrous to the reputation of the U.S. in Brazil.

(3) The U.S. should be prepared to provide additional credit if it is needed to enable Brazil to meet its dollar commitments this year and stay afloat despite rising internal inflation. In addition, the U.S. should provide any other kinds of "stop-gap" aid which may appear possible and desirable. This might involve supplies of agricultural products on credit, such as in the PL–480 proposals. Then the U.S. should prepare a comprehensive economic reform program to discuss with the new Brazilian administration immediately upon a change of government. *Comment:* This appears to be the best policy because:

(a) It would provide the only effective immediate help the U.S. can offer to prevent a breakdown;

(b) It would offer a better chance to help Brazil to reestablish economic stability when it is politically possible to make the program effective; and

(c) It would avoid moral censure of intervention and avoid the shifting of direct responsibility to us for Brazil's economic recovery.

309. Telegram From the Ambassador in Brazil (Dunn) to the Department of State[1]

Rio de Janeiro, May 1, 1955—noon.

1011. Following is a summary Embassy despatch[2] analyzing developments and outlook Brazilian political-economic situation since Embassy despatch 599 [*999*] January 24.[3]

Political situation has continued to deteriorate. Government's weaknesses, ineptitude and engrossment political maneuvering in which it has displayed little foresight or acumen have accentuated caretaker character and further diminished Cafe Filho's prestige and popular support. It has failed to build significant support for self or for presidential candidate to oppose Kubitschek whose election it feels would mean return to Getulism.[4]

. . . .

Strength of Kubitschek, backed by Vargas elements with considerable financial support grew steadily until early this week when alliance with Joao Goulart, Vargas political heir and PTB leader, caused significant defections among financial backers and influential *Correio da Manha.*

Marshal Dutra has publicly denounced Kubitschek–Goulart combination and Minister of War in letter released to press clearly implied that he might be unable to control army should such combination win.

Against this shifting background alternatives being discussed are postponement elections by congressional action involving amendment constitution or military coup. First of these would be possible only through extreme pressure on Congress, probably by military. Second would depend on unity of armed forces, now divided.

From our standpoint election Kubitschek might pose serious problem. Regardless his personal inclinations he would probably have same supporters and same opponents as Vargas and thus might become prisoner of situation beyond his control. Influence of Goulart in his administration might be factor of dangerous instability difficult to contain and Goulart's anti-US bias would be prejudicial our relations with Brazil.

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[1] Source: Department of State, Central Files, 732.00/5–155. Secret; Priority.

[2] Reference is to despatch 1441 from Rio de Janeiro, May 4, not printed. (*Ibid.*, 732.00/5–455)

[3] Document 300.

[4] A term applied to the programs and policies of former President Vargas.

. . . .

Postponement elections would merely beg question and might well prolong and intensify rather than relax tension, while replacement presidential system by European type parliamentary one, which now being considered, would tend toward greater instability and confusion.

Economic situation has continued largely unchanged since January with some improvements being noted in certain sectors due largely Gudin's anti-inflation measures. Fact that $75 million export-import loan not yet drawn on is indication improvement and dollar receipts during April appear highest since last November. Nevertheless, failure Brazil to face so far basic problems in exchange control system and coffee and petroleum policy, coupled with uncertainty as to capacity of elderly new Finance Minister Whitaker[5] result in confused economic outlook similar that political sphere. Administration obviously hopes utilize financial pressure to reduce Kubitschek support. No indication exists that Whitaker intentionally would return to inflationary policy. On contrary he apparently hopes undertake certain major steps in finance and coffee; however, his personal and political capability not clearly evident. Initial coffee move this week suspending government purchases, although step in right direction, was poorly executed.

In current tense preliminary period of fluid political maneuver with lines still obscure we feel it would be highly inadvisable to inject US into political picture in any way. Vargas political testament seems likely to be used in forthcoming campaign and anti-Americanism might become potent political weapon.

We see no immediate need for additional emergency financial assistance, which if granted might be dissipated to the benefit of neither Brazil nor US. But we should bear in mind possibility that serious deterioration could make rapid reappraisal necessary. Finally recommend that no decision be taken at this time re possible extension of $75 million credit and that if Brazilians should approach in matter we take position discussion this time premature.

Dunn

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[5] Gudin resigned as Finance Minister on April 5; José Maria Whitaker replaced him on April 13.

310. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, May 12, 1955.

SUBJECT

Your memorandum to me dated May 5[2]

Discussion:

The subject memorandum requested my assessment of the Brazilian situation, together with specific proposals for action of a type which may form the basis of discussion with Secretary Humphrey.

I believe our basic interests in the Brazilian situation are: (1) in having a new administration in Brazil which will be responsible and able to face and handle Brazil's many problems; (2) in doing what we can to keep Brazil's head above water until a new administration takes over; and (3) then helping Brazil regain some measure of economic stability. Until these three things happen, our relations with Brazil will be very difficult.

With respect to the first point, political maneuvers now taking place in Brazil indicate that Juscelino Kubitschek, Governor of Minas Gerais, is in the leading position. He is likely to pursue a rather nationalistic course if elected, particularly if ex-Labor Minister Goulart and the old Vargas crowd come in with him. Etelvino Lins, the other leading candidate, is weak politically and unlikely to win. Adhemar de Barros is expected to announce his candidacy with some military support on a progressive platform. A military candidate may emerge later on a conservative platform. . . .

With respect to the second point, I believe we should continue our present policy of helping Brazil keep afloat until a new administration takes over. Improvement in the last two months in Brazil's dollar receipts has enabled them not to have to draw yet on the $75 million credit we extended in February. However, if coffee receipts drop off they may be forced to do so within the next few months. I believe we and Treasury should watch carefully Brazil's export policies, the movement of coffee, and the balance of payments. If Brazil is forced to draw down the $75 million, we should consider granting an additional amount if necessary.

With respect to the third point, I believe it is not possible to work out with Brazil now any long-range plans to regain economic stability. The present Café administration will remain in power only a short time longer and is simply not interested or able to move in on Brazil's basic problems. The new Finance Minister, Whitaker, will probably do what he can administratively but this will not be sufficient. We are forced to await the advent of a responsible administration before any real program can be achieved.

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[1] Source: Department of State, Central Files, 611.32/5–1255. Secret.

[2] Not found in Department of State files.

Meantime, we can pursue certain limited constructive objectives which include: (1) negotiation of atomic energy agreements, (2) limited military understandings, (3) continue to press the Brazilians regarding their internal credit policy, (4) maintain closest scrutiny of coffee policies and be prepared to discuss these at appropriate time, (5) overhaul of our FOA program in Brazil, (6) USIA efforts to mitigate anti-U.S. election propaganda, . . . , (8) training of labor leaders and other key people under our exchange program, (9) expanding our binational center program, (10) conclude a PL–480 agreement on wheat, and (11) arrange to provide coal in return for rare earth sulphates and cruzeiros through FOA.

Recommendation:

I believe our policy now should be to proceed with the projects outlined above pending the emergence of a group in Brazil with whom we can work with some degree of effectiveness on Brazil's basic problems. Meantime, we can plan our approach to the new group.[3]

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[3] There is no indication on the source text of action by Hoover on this recommendation.

311. Memorandum of a Conversation, Washington, May 24, 1955, 11 a.m.[1]

SUBJECT

Political and Economic Situation in Brazil

PARTICIPANTS

Secretary of Treasury George Humphrey
Under Secretary of Treasury Randolph Burgess
Assistant Secretary Andrew Overby—Treasury
Colonel King—CIA
David Smizer—CIA
ARA—Assistant Secretary Henry F. Holland
OSA—Rollin S. Atwood
OSA—Sterling J. Cottrell

The discussion covered the present political and economic situation in Brazil. It was noted that there are now five declared candidates for the presidential election in October of this year. Ex-Governor Juscelino Kubitschek of Minas Gerais is in the leading position with ex-Labor Minister Jango Goulart as his Vice Presidential running mate. General Juarez Tavora will attract conservative and military support. Etelvino Lins, ex-Governor of Pernambuco, is weak politically and unlikely to win. Adhemar de Barros may announce his candidacy soon on a liberal platform. Plineo Salgado[2] will attract some ultranationalist support. Other candidates may emerge. The Commies do not favor any of the present candidates and urge a separate movement.

Political maneuvers preclude any accurate estimate at this time of who will win the election. A regrouping among the conservative forces to present one candidate appears to be their only possibility of overtaking the Kubitschek lead. . . .

With respect to the economic situation, it was noted that on May 24 Brazil had drawn $45 million of the $75 million Eximbank credit and that the balance might be requested soon, depending upon the movement of coffee. It was also noted that Finance Minister Whitaker is now considering possible changes in the present exchange system, moving toward a single rate, at least for exports. Dollar receipts through the first half of May were low and improvement will depend to a large extent on Brazilian decisions with respect to the exchange rate. Importers of coffee are apparently buying "hand to mouth" pending some indication that Brazil will settle on some rate with the expectation of holding it for a reasonable length of time.

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[1] Source: Department of State, Central Files, 732.00/5–2455. Secret. Drafted by Cottrell. Holland transmitted a copy to Hoover on May 27.

[2] A candidate of the Partido de Representacao Popular (PRP).

In summary, it was agreed that . . . the developing political situation should be watched very carefully. Also, this Government should be prepared to extend the minimum amount of credit necessary to keep Brazil afloat through this year if and when the $75 million credit is exhausted.[3]

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[3] In telegram 1134 from Rio de Janeiro, June 11, the Embassy appraised the Brazilian politico-economic situation in light of developments which occurred since telegram 1011, May 1 (Document 309). In concluding its analysis, the Embassy made the following assessment:

"Foregoing would appear to indicate that it is neither necessary nor desirable for us to contemplate at this time large scale measure of financial aid to Brazil which would, of course, involve correlative measures of economic reform. Present government is not in position and Brazilian Congress is not appropriately oriented to effect fundamental changes required. We do not discount possibility that Brazil may need some additional assistance before end of year, but feel that if granted it should not exceed minimum requirements." (Department of State, Central Files, 732.00/6–1155)

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312. Report by the Operations Coordinating Board[1]

Washington, June 14, 1955.

BRAZIL—SPECIAL STATUS REPORT

Summary

Brazil's dollar deficit, internal inflation and political turmoil are the outstanding characteristics of the present situation in that country. The Café Filho administration is concerned almost solely with political maneuvering prior to the October 3 presidential election, and the deteriorating economic situation is not receiving constructive attention. U.S. immediate interests in the Brazilian situation are: (1) in having a new administration in Brazil which will be responsible and able to face and handle her many problems; (2) in doing what we can to keep Brazil's head above water until a new administration takes over and (3) then helping Brazil regain some measure of economic equilibrium. With respect to the first point, it is at present impossible to determine any point at which U.S. influence can effectively be brought to bear on the Brazilian political situation because the parties are too fragmented. If a regrouping of political forces takes place, it may be possible at a later date to consider appropriate action. Concerning the second point, the U.S. should consider whether additional "stop-gap" aid will be necessary to keep Brazil's head above water. Concerning the third point, Embassy Rio is being requested to outline an agenda for discussion with the incoming Brazilian administration . . . to re-establish economic equilibrium. The working group is preparing an outline plan . . . which is tentatively scheduled for consideration of the Board on July 6, 1955.[2]

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Brazil. Top Secret. Forwarded to the Operations Coordinating Board on June 16 under cover of a note by Elmer B. Staats, the Board's Executive Officer. In the note, Staats indicated that the special status report on Brazil had been prepared by the OCB Working Group on Latin America in response to the OCB's request at its June 1 meeting. The Board had noted the report at its June 14 meeting. This version of the report, Staats explained, contained the revisions of the original June 7 draft report which were suggested by Treasury and State.

Political Situation

The following candidates for president in the October elections have appeared: Juscelino Kubitschek, ex-Governor of Minas Gerais, is a strong contender. If elected, he is likely to pursue a rather nationalistic course particularly if ex-Labor Minister Goulart and the old Vargas crowd come with him. Etelvino Lins, the conservative ex-Governor of Pernambuco, is weak politically and unlikely to win. . . . Adhemar de Barros may announce his candidacy on a progressive platform. General Juarez Tavora, who is moderately nationalistic and of high personal integrity and reputation, will attract conservative and military support. Ex-Finance Minister Oswaldo Aranha has a following from the old Vargas group. Plineo Salgado will attract some ultra-nationalist support. Moura Andrade, wealthy coffee and cattle grower, has small support in Sao Paulo. The Communists are uncommitted but pushing for organization of a popular front.

Joao Goulart, ex-Labor Minister under Vargas, is still expected to run as vice presidential candidate on the Kubitschek ticket. This combination appears to have the most support at the present time. The other candidates, with the exception of Salgado, draw support from and split the conservative forces. . . . Certain attitudes and pronouncements, on the part of the armed services, expressing their opposition to continuance in power of the Vargas forces, raise the possibility that a military coup might supervene to prevent elections.

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[2] The outline plan for Brazil, dated June 27, was considered by the OCB on July 20. It was approved with minor revisions and circulated on July 26, under cover of a memorandum by Elmer Staats. The plan, not printed, is *ibid.:* Lot 61 D 38, Latin America—Documents, 1954–1956.

This possibility appears to have receded within recent weeks but cannot be entirely discounted.

The Brazilian Communist Party (PCB) appears to have three immediate objectives: (a) to stimulate and exploit public discontent in order to discredit moderate-conservative government; (b) to stimulate and exploit anti-U.S. nationalism in order to neutralize Brazil as an. effective ally of the United States and (c) to advance its popularity by electoral means in coalition with other groups. It is unlikely that the Brazilian Communists can or will attempt to seize power by force in the near future.

The disunity and disorganization of moderate-conservative preparations for the October presidential elections, together with the widespread popular unrest resulting from the Vargas legacy of extreme economic instability and severe inflation, are currently providing a propitious background for the exploitation of popular discontent. The PCB's most effective work against the U.S. is being carried out under the National Emancipation League (LEN) whose aims include "national economic independence" based on the defense of subsoil riches and liberation of Brazil from "North American Imperialist Yoke." Branches of this organization have been established in some 250 cities and towns, and the organization appears to be both active and vociferous. The Party's recent electoral activities have been characterized by a frantic but thus far unsuccessful search for a presidential candidate behind which it could marshal its strength and its recent coalition with Adhemar de Barro's PSP–PTB combination in Sao Paulo whose candidates just won a smashing victory in the mayoralty contest. This mayoralty victory will probably add to Communist prestige and should enhance their position in the forthcoming presidential elections.

Economic Situation

The deterioration of the Brazilian dollar position continues. Despite efforts of the Bank of Brazil to reduce dollar payments as much as possible, the very low level of receipts has continued the drain on limited dollar reserves. The Bank of Brazil estimates that during June-December 1955 it will have to meet dollar requirements of $510 million, and has projected dollar receipts of $420 million. To cover this projected gap of $90 million, on June 1 Brazil had $80 million in disposable cash and unused credit lines, including $30 million not yet drawn on the Eximbank line established in March. Earlier forecasts by the Bank of Brazil have overestimated both dollar earnings and expenditures. The outcome for the remainder of this year can scarcely be predicted before the Brazilian Government has reached a decision on its support price for the new coffee crop and the coffee exchange rate. It is possible, however, that a substantial deficit will occur, in which case the U.S. Government may wish to consider extending additional minimum credits to Brazil.

Mr. Bernstein[3] of the International Monetary Fund has recently returned from a visit to Brazil and with the assistance of the IMF staff is now preparing a report which is to recommend the principles which should guide Brazil in the revision of its exchange system. Revision is necessary because the movement of coffee is now on a hand-to-mouth basis since importers expect a lower price and are reluctant to buy, while exporters expect an exchange revision in Brazil which would give them a higher cruzeiro return so they are reluctant to sell. Consequently, a major revision of the exchange system, which had prospects of lasting for a reasonable period, would probably promote larger sales, although at lower prices. When the IMF Staff has drawn up these recommendations for submission to the Fund's Board of Directors, it will be necessary for the U.S. Government to consider these proposals.

Coffee has moved slowly into foreign markets, partly because of Brazilian indecision concerning its exchange policy. Last week in New York a non-government conference of coffee interests of Latin America proposed the organization of an International Coffee Office and an international agreement to be submitted for ratification by their respective governments. The agreement would be designed to "achieve stability of the market, protecting both the interests of the consumer and the producers." Events will determine whether this new organization can obtain support for any plan which will be effective.

Secondary Problems

In addition to our major policies, the U.S. is taking certain limited constructive actions which include: (1) negotiation of atomic energy agreements, (2) limited military understandings, (3) strengthening the technical cooperation program in Brazil, (4) USIA efforts to mitigate anti-U.S. election propaganda, . . . (6) training of labor leaders and other key people under our exchange program, (7) expanding our binational center program, and (8) arranging to provide coal in return for cruzeiros and rare sulphates through FOA.

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[3] Edward M. Bernstein, Director of the Research and Statistics Department, IMF.

313. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, August 30, 1955.

SUBJECT

Invitation for State Visit for President-elect of Brazil

Discussion:

A new Brazilian President will be elected on October 3, 1955, and will be inaugurated on January 31, 1956. For the reasons set out below I recommend that we obtain authority to invite the new president to visit the United States early in 1956; provided, that the elections are not characterized by violence or other factors which would make this undesirable. My reasons are:

1. The invitation would constitute recognition of the peculiar importance of U.S.-Brazilian relationships in hemispheric affairs.
2. Immediately upon his election the new president will be subjected to intense pressures from nationalistic, anti-U.S. sectors. Prompt extension of an invitation will somewhat offset these pressures and, perhaps, actually prevent commitments or decisions inimical to U.S. interests which might otherwise be made.
3. Such a visit would give us an opportunity at the very outset of his administration to try to persuade the new president to a policy of close cooperation with the United States. The strength of the Communist party and of anti-U.S. sectors in Brazil; the great importance of the problems, such as amendment of petroleum code, Brazil's economic policies, measures to stabilize the coffee industry, Defense's needs for new bases in Brazil, which will arise during the period of the next administration there, justify the strongest effort on our part to establish at the outset effective working relations with the new president, whoever he may be.

Recommendation:

That you obtain from President Eisenhower approval for our extending immediately after his election an invitation for the President-elect of Brazil to visit the United States early in 1956 at a time to be agreed upon later.[2]

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[1] Source: Department of State, OSA Files: Lot 58 D 42, Brazil 1955—Visits to the United States. Confidential. Drafted by Rowell and Holland. Sent through the Executive Secretariat (S/S).

[2] There is no indication on the source text whether the Secretary approved the recommendation at this time.

In a letter to Rowell, September 8, Trimble noted that Ambassador Dunn was "heartily in favor" of inviting the Brazilian President-elect to make an official visit to the United States. Trimble observed that "it would seem desirable to have the tracks well greased in Washington so that an invitation can be extended to the successful candidate immediately after the election is over." (*Ibid.*)

314. Memorandum From Rudolf E. Cahn of the Office of South American Affairs to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, October 14, 1955.

SUBJECT

Brazil: Program of Economic Reforms (Your memorandum of July 30 to Messrs. Lyon, Cale, and Dearborn)[2]

Discussion:

There is attached a Program of Economic Reforms for Brazil for discussion with the new Brazilian administration. This program was prepared and agreed upon by OSA, AR, and E. Copies of this program have been sent to Mr. Corbett, who will clear it with Treasury and Eximbank.

The basic conclusion reached was that any special U.S. assistance should be contingent upon real progress by the Brazilian Government in achieving economic stabilization through such corrective measures as are wholly within its own capacity.

Recommendation:

That you approve the conclusions and program of action.[3]

[Enclosure]

ECONOMIC PROGRAM FOR BRAZIL[4]

I—Objectives of Economic Reform

In our talks with the Brazilians we should impress on them that prompt and firm measures are required to achieve the following objectives of economic policy:

1) The containment of inflation;

2) The correction of the deficit in the balance of international payments;

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[1] Source: Department of State, OSA Files: Lot 58 D 42, Brazil 1955—Economic (General). Confidential. Also addressed to Lyon. Dearborn and Cale concurred with the analysis presented in the enclosure.

[2] Not found in Department of State files.

[3] Holland initialed his approval on the source text.

[4] Confidential. Drafted by Cahn, Turkel, and Joseph Rosa, Adviser, Economic Development Division.

3) The correction of the imbalance among the various sectors of the development program.

II—Measures to Achieve Objectives

While we have definite views as to the concrete measures necessary to achieve these three objectives, we are confident that the Brazilians have sufficient competence in these fields to formulate the necessary measures if the new Government is firmly determined to undertake and carry out those measures. A list, including both short or long-term measures, is attached hereto. Action must be undertaken vigorously across the broad front if success is to be achieved. Three areas, however, are of supreme importance if Brazil is to escape from chronic financial instability and repeated crises; these are:

1) The control of the quantity and destination of bank credit;
2) The achievement of balanced Government accounts;
3) The reform of the exchange system.

III—What the Brazilians Will Probably Ask For

In discussing with Brazil the problem of her economic instability, it seems probable that she would request us to assist her along any or all of the following: (1) refunding of her short-term indebtedness, (2) a substantial loan to be used for balance of payments purposes and to provide an adequate reserve in connection with exchange reforms and (3) development loans primarily as recommended by the Joint Commission.

It may be recalled that we have come to the assistance of Brazil in connection with previous crises and at each time the Brazilians indicated that they would take remedial actions to overcome their economic and financial difficulties. In each case we expected that our assistance would induce more energetic action on the part of Brazil in instituting and carrying out the necessary corrective measures. This was the case in connection with our granting of the $300 million Export-Import Bank loan in 1953, the $160 million gold loans by the Federal Reserve Bank in 1954, and again (but to a lesser extent) the $75 million Export-Import Bank credit in February 1955.

IV—U.S. Attitude

1) We should emphasize that any requests from the Brazilian Government would receive careful consideration but that special U.S. assistance is necessarily contingent upon real progress by the Brazilian Government in achieving economic stabilization through such corrective measures as are wholly within its own capacity. Also, if real progress is made the IBRD would be more respective for development loans.

2) In the light of prospective export earnings and import requirements, we feel that Brazil has very little capacity to service additional short-term indebtedness.

3) The only short-term indebtedness which currently imposes an appreciable burden is the $300 million Export-Import Bank loan of 1953. (Payment on the $200 million gold collateral loan of 1952 from private banks will start in 1959;[5] the 1955 Eximbank credit of $75 million, of which only $45 million was utilized, will begin only after the $300 million is paid off.)

The current annual payments on the $300 million loan amount to $50.4. If reduced say by one-half, the Brazilian foreign exchange budget would be helped, but not to any important degree unless other assistance is extended at the same time.

If all we can do is to alleviate the current repayment burden say by $25 million for one year, it is hardly likely that we can induce the new Government to take the vigorous and unpopular measures which will be necessary to achieve economic stabilization and the other economic objectives.

List of Short or Long-Term Measures[6]

A—Monetary, Banking and Fiscal Measures

1) *Private Credit Control.* Strengthening present policies for qualitative and quantitative control of credit to the private sector of the economy.

2) *Government Deficits.* Careful examination of federal government expenditures with a view to economies and a reduction of the deficit; extra-budgetary credits should be avoided, unless revenue to cover them is provided simultaneously.

3) *Government Enterprises.* Measures to place government enterprises, notably transportation and other utilities, on a self-supporting and efficiently operating basis; a raising of rates and improvements in management are needed. Some enterprises might be sold to private investors.

4) *State and Local Deficits.* Measures to reduce state and local deficits, or to provide for their financing from non-inflationary sources.

5) *Monetary and Banking System.* A review of the monetary and banking system designed to facilitate the implementation of mone-

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[5] For documentation on these loans, see *Foreign Relations,* 1952–1954, vol. IV, pp. 570 ff.

[6] A nearly identical copy of this list was drafted by Rowell and forwarded to Holland on September 15. (Department of State, OSA Files: Lot 58 D 42, Brazil 1955—Economic (General))

tary policies; plans should include the establishment of a central bank.

6) *Taxation.* A review of the tax and revenue system with a view to improved administration and the adoption of desirable reforms.

7) *Foreign Exchange System.* Simplification of the exchange system and the adoption of improved procedures, looking to the encouragement of both a near and a long-term expansion of exports, and to the eventual establishment of reasonable freedom in the purchase and sale of exchange at a unitary rate.

B—Other Measures

8) *Coffee.* A coffee policy which permits coffee exports to move in large volume. (Coffee is a delicate subject and the U.S. should speak only in general terms, preferably after Brazilian initiative.)

9) *Transportation Facilities.* Measures to improve and extend transportation facilities of all types; better organization and management is needed.

10) *Solution of the Petroleum Problem.* Importance of easing the pressure this commodity exerts on the foreign exchange budget by developing domestic sources of supply.[7]

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[7] In a memorandum to Lyon and Holland of October 17, attached to the source text, Cale made the following comments:

"I concur in the attached memorandum. I also believe that prior to any discussions with Brazilian officials on the subject we should have a rather clear idea as to the magnitude, and possibly the nature, of the Brazilian economic program which we would help finance, provided the Brazilian Government takes the type of action we believe necessary to maintain economic and financial stability. It is my understanding that some consideration has already been given to this matter. I believe that we should attempt to reach the maximum measure of agreement possible with the E area and with the Treasury Department, at least, prior to any discussions with Brazilian officials."

315. Telegram From the Ambassador in Brazil (Dunn) to the Department of State[1]

Rio de Janeiro, October 19, 1955—5 p.m.

467. At his request I met Kubitschek[2] privately last evening only others present were Walther Moreira Salles[3] and Berent Friele.[4]

I had a very favorable impression of his manner and self-confidence and he struck me as a man even younger than his age (54) vigorous and forthright. He stated that he was not a Communist would not permit the Communists to be active in his government and recalled that he when Deputy for Minas, had voted to deprive the Communist Party of legal status.

He regretted that certain of the press in US were giving impression he was connected with the Communists and he was concerned that such an impression might interfere with the good relations he hoped to have between Brazil and the US.

He described in general lines the determination he has to bring about a great improvement in the economic situation of Brazil during his 5 years of office. He spoke of the needs for increase in electric energy transportation and agricultural production as well as agricultural distribution. He said that for the furtherance of his economic plans the US was the only country which could be of assistance to him because of the need for large quantities of industrial and power equipment and imports necessary for increasing industrial production of Brazil.

He said that after receiving his certificate of election which he expected shortly he hoped to be able to go to US to discuss some of his economic plans with our officials and private financial circles. In the meantime however he was developing specific plans in various sectors of economy which he would like very much to present to the Embassy for consideration and if we agreed for recommendation for study in Washington. I asked him if he had given consideration to the matter of balance of payments in order to take care of a large development program and he said that he had and was studying very closely the question of increase and diversification of production for export.

I told Kubitschek that our government would be well disposed toward him in his efforts to improve the economy of Brazil as it was one of our earnest desires to see Brazil improve and become strong in the development of its own resources. I also said that we would be very glad to give the fullest consideration to any plans he might lay before us and he could be assured we would give them our utmost consideration.[5]

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[1] Source: Department of State, Central Files, 732.00/10–1955. Secret.

[2] Kubitschek won the Brazilian presidential election of October 5.

[3] An unofficial adviser to Kubitschek and former Brazilian Ambassador to the United States.

[4] Consultant to the Director of the U.S. Operations Mission (USOM) in Brazil.

Dunn

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[5] Telegram 489 to Rio de Janeiro, October 25, informed the Embassy that since Kubitschek wished to visit the United States prior to his inauguration it was advisable that he come on an "unofficial" visit. The telegram authorized the Embassy to convey an invitation to him to visit Washington for a 2- or 3-day visit sometime between January 2 and 9. This invitation, the Department added, was of course based on the assumption that by then Kubitschek would have received his certificate of election. (Department of State, Central Files, 732.00/10–1955)

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316. Memorandum of Discussion at the 262d Meeting of the National Security Council, Washington, October 20, 1955[1]

Present at the 262nd meeting were the Vice President of the United States, presiding; the Secretary of State; the Secretary of Defense; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Attorney General;[2] the Director, Bureau of the Budget; the Special Assistant to the President on Disarmament;[2] the Chairman, Atomic Energy Commission;[2] the Director, U.S. Information Agency; the Under Secretary of State; the Deputy Secretary of Defense; Assistant Secretary of State Bowie; the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; the Deputy Assistant to the President;[3] Special Assistant to the President Dillon Anderson; Special Assistant to the President Nelson Rockefeller; the White House Staff Secretary; the Executive Secretary, NSC; the Deputy Executive Secretary, NSC.

[Here follows discussion of agenda item 1, the forthcoming Foreign Ministers meeting, and the opening portion of agenda item 2, "Significant World Developments Affecting U.S. Security."]

At the conclusion of Mr. Dulles' regular briefing, the Vice President inquired whether Mr. Dulles had any late information on developments in the Brazilian election. Mr. Dulles replied that he had not planned to discuss this matter on the present occasion but he could say that Kubitschek had been clearly elected President. Mr. Dulles added that he was not inclined to agree with those who said that Kubitschek was a fellow-traveler despite the fact that he had had the support of the Communists in the electoral campaign. In fact, Mr. Dulles predicted that the United States would probably be able to work successfully with Kubitschek.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on October 21.

[2] Did not attend the reconvened meeting at 2 p.m. [Footnote in the source text.]

[3] Did not attend the morning session of the meeting. [Footnote in the source text.]

Governor Stassen, who expressed doubt as to Kubitschek's reliability, said that in any case the Communist trick might well be to assassinate Kubitschek in two years or so. Then Goulart, the Vice-President . . . would take over control of Brazil. He believed that this was a situation which bore watching.

After further discussion, including a discussion of the possibility of a coup d'état to prevent Kubitschek's getting the Presidency, the Vice President stated that the problem of the Brazilian election deserved more discussion than time permitted at the present meeting. Perhaps, he thought, the NSC Planning Board, together with Assistant Secretary of State Holland, should do some thinking about the problem and present their views to the National Security Council at its next meeting. . . .

Governor Stassen once again emphasized his belief that the situation in Brazil was actually far more serious than the U.S. Government had realized over the past two years.

Admiral Strauss[4] pointed out that the AEC had sent a mission to Rio last spring which had negotiated a contract for exploration.[5] Moreover, negotiations were about to begin on providing Brazil with an atomic reactor. He wondered whether the developments which were being discussed suggested that the AEC should move more cautiously and slowly than it had planned. Mr. Nelson Rockefeller said that he did not think so. He believed that the thing for the United States to do was to try to work with Kubitschek as much as possible and to bring him and his followers into the Western camp. Secretary Humphrey agreed with this position as did the Vice President.

Mr. Dulles again said that he would get together with Secretary Holland and prepare a report on Brazil for next week's meeting.

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[4] Lewis L. Strauss, Chairman of the Atomic Energy Commission.

[5] For text of this agreement for a cooperative program for reconnaissance of the uranium resources of Brazil, effected by an exchange of notes at Rio de Janeiro on August 3, 1955, and entered into force on the same date, see 6 UST (pt. 3) 3835.

Assistant Secretary of State Bowie said that Secretary Holland believed that the United States could work successfully with Kubitschek if he stayed in power.

[Here follows discussion of several other agenda items.]

S. Everett Gleason

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317. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the President of the Export-Import Bank (Waugh)[1]

Washington, November 2, 1955.

DEAR SAM: I refer to the telegram dated October 27, 1955, which Finance Minister Mario Camara sent you regarding the Santos–Jundiai Railway loan.[2]

Until we are sure that the policies of the newly elected administration in Brazil are consistent with Eximbank objectives and compatible with United States interests in general, the loan policy of the Eximbank toward Brazil should be one of extreme caution. Every effort should be made to avoid commitments prior to the inauguration of the new administration at the end of January 1956 and until its position on economic and political matters has become more clearly defined.

You may find it impossible to make this an irrevocable policy of the Bank since the Volta Redonda loan,[3] for example, might occupy such a position in the public eye in Brazil that to hold it up indefinitely would be more harmful to United States interests than extending it.

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[1] Source: Department of State, Central Files, 103–XMB/11–255. Confidential. Drafted by Rowell and cleared with Corbett and Prochnow.

[2] In this telegram, attached to the source text, Mario Camara referred to the Brazilian Government's loan application to cover expenditures for the second part of the Santos a Jundiai Railway reequipment project which was before the Export-Import Bank. Emphasizing the importance of the railroad linking Santos Harbor to São Paulo City, he confirmed his government's "extreme interest" in the proposed loan. The Bank had authorized previous credits to the Santos a Jundiai of $8.6 million in 1952 and $320,000 in 1954.

[3] In 1941, the Export-Import Bank granted Brazil a loan of $45 million to aid in the construction of a steel mill at Volta Redonda. In 1950, the Bank granted another loan amounting to $25 million for expansion of the plant's capacity. For information on these loans, see Department of State *Bulletin,* July 12, 1941, p. 19 and *ibid.,* January 1, 1951, pp. 25–26. On July 6, 1955, Brazil requested a further $35 million credit from the Export-Import Bank for additional expansion of the plant's capacity.

So far as I am aware, the Santos-Jundiai Railway re-equipment loan does not fall in this category. In view of its size, it could be a very important card in our dealings with Brazil and should be held in reserve to the maximum extent possible.

I would recommend that you reply to Mario Camara's telegram by expressing your personal interest in the loan and assuring sympathetic consideration but noting that due to the pressure of the workload, or some other appropriate technical reason, staff studies have not as yet been concluded, and it has not been received by the Board for appropriate action.[4]

Sincerely yours,

Henry F. Holland[5]

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[4] Telegram 690 to Rio de Janeiro, December 14, from Waugh to Lucas Lopez, Brazilian Minister for Transport and Public Works, stated that the Bank was giving "active and serious consideration" to the Santos a Jundiai loan application. (Department of State, Central Files, 103–XMB/12–1455)

On January 3, 1956, the National Advisory Council advised the Export-Import Bank that it had no objection to consideration by the Bank of a proposed credit to the Santos a Jundiai Railway not to exceed $20 million. (NAC Action No. 847; *ibid.*, NAC Files: Lot 60 D 137, Actions) Shortly thereafter, the Bank authorized a $19.6 million loan. For further information, see Export-Import Bank of Washington, *Report to Congress for the Period January–June 1956* (Washington, 1956), p. 30.

[5] Printed from a copy which bears this typed signature.

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318. Memorandum of Discussion at the 264th Meeting of the National Security Council, Washington, November 3, 1955[1]

Present at the 264th Council meeting were the Vice President of the United States, presiding; the Acting Secretary of State; the Acting Secretary of Defense; and the Director, Office of Defense Mobilization. Also present were Mr. H. Chapman Rose for the Secretary of the Treasury; the Attorney General; the Director, Bureau of the Budget; the Chairman, Atomic Energy Commission; Mr. Robert Matteson for the Special Assistant to the President on Disarmament; the Director, U.S. Information Agency; the Director, International Cooperation Administration; Assistant Secretary of State Holland (for item 5); Mr. Harry H. Schwartz, Department of State; the Secretary of the Army, the Secretary of the Navy, and the

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on November 4.

Acting Secretary of the Air Force (for Items 5 and 6); the Chairman, Joint Chiefs of Staff; General W. B. Palmer for the Chief of Staff, U.S. Army, the Chief of Naval Operations, General Thomas D. White for the Chief of Staff U.S. Air Force, and Maj. Gen. Robert E. Hogaboom for the Commandant, U.S. Marine Corps (for Items 5 and 6); the Director of Central Intelligence; the Deputy Assistant to the President; Special Assistants to the President Anderson and Rockefeller; the White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of agenda items 1–4: "Significant World Developments Affecting U.S. Security," "U.S. Policy Toward Formosa and the Government of the Republic of China," "U.S. Policy on Turkey," and "The Arab-Israeli Situation."]

5. Situation in Brazil Following the Elections (NSC Action No. 1454–b)

Mr. Allen Dulles first presented the more or less final figures on the recent Brazilian election. These figures showed that Kubitschek had undoubtedly been elected President and that Goulart had been elected Vice President of Brazil. He pointed out that both Kubitschek and Goulart had had the support of the Brazilian Communists in the election. There was no reason, however, to believe that Kubitschek had any pro-Communist tendencies. Goulart could be described as an opportunist who had played ball with the Communists in order to get to the top of the heap. The likelihood of a military coup to prevent Kubitschek from taking office was now slipping into the background.

Mr. Dulles then proceeded to outline the problems which would confront the new Brazilian administration: heavy inflation; a very serious foreign exchange problem; lack of power resources; the necessity of working with a Congress elected in 1954; and others. Mr. Dulles stated that he believed Kubitschek was relatively friendly to the United States—certainly as friendly as any other of the candidates in the recent election. Mr. Dulles concluded with the suggestion that Assistant Secretary Holland would probably wish to add to the statement he had made.

In the first instance, Secretary Holland expressed complete agreement with the statements made by Mr. Dulles. He said he could summarize the situation in Brazil as follows. The short-term situation was relatively favorable, but over the long term Brazil was facing serious problems which would require U.S. assistance. Among these problems the Communist situation was very tough. The Brazilian Communist Party was the largest and best led of all the Communist Parties in Latin America. Brazil's future in the economic field would depend on coffee prices. Production of coffee would soon seriously outstrip consumption. Two years from now Brazil would face a serious coffee problem. With respect to U.S. policy toward Brazil, Secretary Holland pointed out that we had undertaken to delineate a program of economic reform which we believed Brazil should undertake to execute. We proposed to press this program on Kubitschek when he came to the United States for his informal visit, probably during the period January 2 to 9 of next year. . . .

. . . .

[Here follows discussion of agenda item 6, "Status of National Security Programs as of June 30, 1955: The Military Program."]

S. Everett Gleason

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319. Editorial Note

On November 16, representatives of the United States and Brazil signed a Surplus Agricultural Agreement under the provisions of Title I of Public Law 480. Under the terms of the agreement, the United States agreed to sell to Brazil surplus agricultural commodities valued at approximately $41 million. For text of the agreement, signed at Rio de Janeiro, see 6 UST 4033. Considerable additional documentation concerning the negotiation of this agreement is in Department of State, Central File 411.3241.

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320. Editorial Note

Brazilian President-elect Kubitschek arrived in the United States on January 5, 1956, beginning a 6-day unofficial visit. He met first with President Eisenhower at Key West, Florida, on the morning of January 5 and traveled to Washington later that day for a series of meetings with United States officials. Documentation on Kubitschek's visit is in Department of State, Central File 033.3211 and *ibid.*, ARA Files: Lot 62 D 308, Visit of President-Elect Kubitschek.

321. Memorandum of a Telephone Conversation Between the President and the Secretary of State, January 5, 1956, 9:48 a.m.[1]

The Pres. said Kubitschek has gone—he is very attractive—a nice guy—talks a little English. They talked about economic development—he realized his dependence on us. The Pres. told K. he has friendship here. Dunn can report more fully. The Pres. told K. he can easily send a personal friend of his in the oil business down and consult with him but the Pres.'s own observation would be any plan for the slightest modification of their law should come from them & not seem to be inspired from here.[2] K. would like to talk with someone in Feb. He might ask someone like Pete Jones.[3] K. said he is conservative and has come up in the spirit of friendship and wants to help his country and act in a way that commands respect.

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[1] Source: Eisenhower Library, Dulles Papers, White House Telephone Conversations. Prepared in the Office of the Secretary of State.

[2] In a handwritten note, Dulles inserted the phrase "& not seem to be inspired from here" in the source text.

[3] Dulles inserted this sentence in the source text in a handwritten note. W. Alton ("Pete") Jones was Chairman of the Board and Director of Cities Services Oil Company.

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322. Memorandum of a Conversation, Department of State, Washington, January 6, 1956[1]

SUBJECT

President-elect Kubitschek's Talk with the Secretary of State

PARTICIPANTS

The Secretary of State
The President-elect of Brazil Kubitschek
Ambassador João Carlos Muñiz of Brazil
Minister Barbosa da Silva
Roberto Campos
ARA—Henry F. Holland

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[1] Source: Department of State, Central Files, 732.11/1–656. Secret. Drafted by Holland.

After initial pleasantries the question of Communism [was?] raised. The President-elect of Brazil made more or less the following statements:

Before leaving Brazil he had a meeting with the Ministers of Foreign Affairs, Defense and Treasury. He did so because he wanted to be in a position to state with authority the position of the Brazilian Government with respect to Communism. He is considerably more concerned about the possibility of penetration of the Government by Communism than he is by the possibility of there being Communists scattered throughout the country.

The Communist Party in Brazil is a small minority. In the elections of 1946 they polled approximately 600,000. Their numbers have been diminishing since that time. When the Party was outlawed, they went underground and began to try to work through other parties, trying to select candidates for other parties. However, no candidate selected by the Communists has ever won an election.

Today the Communists in Brazil are politically of no importance. They are not even important as an active minority.

The President's own position is well known. He is resolutely opposed to Communism. He has been criticized because of certain things regarding the Vice President. The Vice President is the head of the Labor Party which is the party which leads the fight against Communism.

The United States can be assured that the Government of Brazil will be determined to elevate living standards and to create economic progress in Brazil and will be opposed to Communism.

The President-elect asked the Secretary if he would comment on the world situation generally and, particularly, was he pessimistic about the future.

The Secretary said that there were many problems, but that he was neither frightened nor pessimistic. He pointed out that the Russians have gradually built up a considerable amount of industrialization, but they are unable to meet the needs of their own economy. He emphasized that the Russians in their offers of aid to other countries are carefully withholding this information from their own people because they fear that, if the Russian people were aware of the Russians' offer of aid to other countries, it would cause widespread discontent within Russia itself.

The Secretary emphasized the need for close relations between Brazil and the United States. He said, that the United States should maintain with Brazil the same kind of relationships that we maintain with Canada. He pointed out that Canada and Brazil were somewhat alike in that each had been a nation with vast land expanses and great undeveloped resources. He pointed out that over the past fifteen or twenty years the economy of Canada had been greatly developed, new natural resources had been brought into exploitation and considerable industrialization had taken place. In fact, Canada is now becoming a rather highly industrialized country. This has been brought about in no small degree by the fact that the investors of Canada and the United States had worked closely together.

The Secretary said that he felt confident that there were substantial quantities of United States capital that would be glad to go to Brazil and make its contribution to the development of that country and under terms and conditions that would be acceptable to the Brazilians. He said that the United States investor would be willing to go abroad where he had assurances of fair treatment and security against expropriation.

The President-elect said that he would welcome the participation of American capital in the development of Brazil; that one of the primary purposes of his campaign was to establish that kind of political stability that would make Brazil interesting as a field for investment. He said that one of the reasons of his trip to the United States was to try to inspire confidence in the American business man. He said that during his campaign he had been the subject of many attacks. A number of people thought that he could be persuaded or influenced to reinstate or perpetuate the kind of dictatorship that existed under the Vargas regime; however, he had undertaken his campaign on a democratic basis and was determined to adhere to that in his government.

I asked permission to make a statement regarding Communism. I made more or less the following points:

Each of us has his own domestic Communist problem. Ours concerns us deeply and the remarks of the President-elect demonstrate that he is concerned about his. However, as a community of nations there is another aspect of Communism which must concern us on a joint basis; that is the aspect of Communism that is represented by its existence as an international, well-organized, well-financed conspiracy existing for subversive and intelligence purposes. We, Brazil, Mexico and certain other of the larger and stronger American nations are the principal objectives of the Communists. Within our territories are located the nerve centers which direct the operations of this international conspiracy throughout this hemisphere. Therefore, we have the responsibility not only for our domestic Communist problem, but also a responsibility as members of the inter-American Organization for combatting an international Communist organization that exists throughout the hemisphere. We as leading nations have an additional responsibility because the executive headquarters of the Communist conspiracy are situated in our various countries.

I said that we feel that we know a substantial amount of facts regarding this international conspiracy. We know a good deal about the master plan which underlies its operation in the hemisphere. That plan has several objectives. One of them is to retard and obstruct economic development in each of the American republics. This is sought in order that, in the event of another war, we would be not either singly or as a group as strong an enemy as would be the case if our economic progress were to go ahead as rapidly as is entirely practical. I said that another objective of the international conspiracy is to separate each American state from every other American state in order that politically and in a military sense we would not be as strong or as coordinated an enemy in the event of another war.

In order to combat this international conspiracy which is aimed at the destruction of those values which we have achieved in this hemisphere and which is aimed to prevent our achieving the future that lies within our grasp, it is necessary that we progress simultaneously against Communism on three fronts. The first of these three fronts is that mentioned by the President-elect, the economic front. We must do what we can to raise living standards and to create in each American country a stable, self-reliant national economy.

The second of these three fronts is the ideological front. We must make sure that our people are aware of the moral, ethical and religious repulsiveness of Communism which makes it unacceptable to a Christian.

The third front and one whose importance we do not always appreciate is the technical front. You combat communism as an ideology or philosophy when you move on the economic and ideological front. However, you do not at all embarrass an international subversive organization of spies and subversive agents when you move on these first two fronts. In order to hinder and destroy that international conspiracy it is necessary to deprive it of the ability to move persons, to move funds, to move information and to obstruct its access to those means of publicity, without which sinews it cannot exist as an effective international conspiracy. I said that it was in our judgment very desirable that all of our governments coordinate their efforts very closely on this technical front in order to defeat and destroy this international subversive spy organization.

President-elect Kubitschek said that the Communists in Brazil were very able and active on the propaganda front; that they had been able to manufacture the nationalistic contention that "the petroleum is ours" and to convince a substantial sector of the people of the fallacy that development of the oil industry by foreign entities was prejudicial to Brazil.[2]

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[2] Also on January 6, Kubitschek and his party held discussions at the Blair House regarding economic matters and the problem of communism with a group of American officials, including Holland, Dunn, and Bernbaum. A memorandum of the discussion pertaining to economic matters, drafted by Bernbaum, is *ibid.* A separate memorandum of the discussion on communism, drafted by Bernbaum, is *ibid.*, Holland Files: Lot 57 D 295, Brazil.

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323. Memorandum of a Telephone Conversation Between the President and the Secretary of State, Washington, January 11, 1956, 4:33 p.m.[1]

The Pres. asked if he didn't tell the Sec. that he told Kubitschek that after he was enthroned etc., the Pres. would send a friend down to discuss the problems of an oil company and its development. The Pres. is going to see his friend in a day or so and wants him to be able to study some background. Could someone here find any of the laws as they now exist and just send it over (the Sec., that is) without saying anything. The Pres. clarified that what he had in mind was to send someone to consult to see what he wanted to do and then the man would come out and K. would propose his own plan. The Pres. told K. it would be a great error to let an American company state its terms and get such a law passed. The Pres. told him to propose a law in the benefit of Brazil and get someone to come in on that basis. He wants his friend to have the background so he won't overlook anything pertinent. The Sec. said he would have it done.

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[1] Source: Eisenhower Library, Dulles Papers, White House Telephone Conversations. Prepared in the Office of the Secretary of State.

324. Memorandum From the Secretary of State to the President[1]

Washington, January 12, 1956.

I am getting up the material you asked for with reference to Brazil petroleum laws. I suggest, however, that you ask Pete Jones to talk to Herbert Hoover, who is very familiar with this situation which is exceedingly tricky. This petroleum matter was the major issue in the recent campaign and has been a highly charged matter of domestic politics for some years.

John Foster Dulles[2]

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[1] Source: Eisenhower Library, Dulles Papers, White House Memoranda. Drafted by Dulles. A handwritten note on the source text indicates that it was handcarried by the Secretary to the President on January 12.

[2] Printed from a copy which bears this typed signature.

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325. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, January 13, 1956.

SUBJECT

Oil Development in Brazil

You have asked that I prepare a summary of information which might be useful to some outstanding United States oil man if he were to visit Brazil to discuss the problems of the Brazilian oil industry with government officials there. The memorandum will be submitted to you promptly. In the meantime I would like to set out one or two points of concern that your request raises in my mind.

The issue of whether the Brazilian oil industry should be developed by a national monopoly or by foreign companies was the most inflammatory issue in the fall presidential election.

The issue is one manufactured by the Communists and they devote much of their propaganda effort to it. A few months ago they featured a completely false propaganda story that a Standard of

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[1] Source: Department of State, Central Files, 832.2553/1–1356. Confidential; Eyes Only. Sent through S/S. Under Secretary Hoover initialed his concurrence on the source text.

New Jersey official had come to Brazil to offer $500 million for legislative reform and a contract satisfactory to his company. A little while later the same story was repeated but the figure was raised to $1 billion.

The net result of the Communist campaign is that the president-elect and principal government officials have taken the public position that they favor development of the oil industry by the national monopoly to the exclusion of foreign companies.

The Communist Party has its agents well scattered through the Brazilian Government. Any prominent United States oil man visiting Brazil would be put under surveillance and the purpose of his visit would be quickly determined. Regardless of his true purpose, if he talked to Government officials the Communists would fabricate and publicize some such story as those mentioned above. Under existing conditions the Government would then simply have to break off contact with him.

The responsible agents of our Government place high priority on the opening up of the Brazilian oil industry to private enterprise. It is the only way that Brazil will achieve a petroleum industry and, until one is achieved, Brazil's economic problems will grow steadily worse.

We are in contact with high governmental officials including the President-elect on this subject. We are hopeful that during his term of office the objective mentioned can be attained. I believe sincerely that our success will be obstructed if any United States citizen prominent in the oil industry were to visit Brazil and attempt to discuss this problem with top government officials.[2]

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[2] On January 18, Holland forwarded a memorandum to Dulles entitled, "Brazilian Petroleum Situation." This two-page memorandum briefly summarized the relevant Brazilian petroleum legislation, the significance of Brazilian oil production, and the political implications of the government's policy. "Because of the explosive political issue," the memorandum reads in part, "high officials who realize the imperative necessity of a liberalized policy toward foreign capital for oil development find it difficult to take action." It noted that Kubitschek had expressed himself "in favor of foreign participation" in private statements, but added that "it still remains to be seen whether he has the political courage and backing to change the existing situation." (*Ibid.*, 832.2553/1–1856)

326. Editorial Note

On February 2, an American Delegation headed by Vice President Nixon arrived in Brazil to attend the inauguration ceremony that day for Brazilian President-elect Kubitschek. Also included in the American Delegation were Holland, John B. Hollister, and several others. Nixon and his party met with Kubitschek and members of his cabinet on February 2 to discuss questions of mutual security and economic cooperation. In despatch 1003 from Rio de Janeiro, February 10, the Embassy enclosed an exact translation of the Portuguese transcripts of the proceedings, prepared by Brazilian officials. (Department of State, Central Files, 611.32/2–1056)

Later that day an American group headed by Holland met with a Brazilian delegation, led by Foreign Minister José Carlos de Macedo Soares, to discuss economic matters. During the course of the meeting, Brazilian Finance Minister Mario José Alkimin outlined the major economic policies of the Kubitschek administration and indicated certain requirements for external financial support, including assistance from the United States. He also presented the American group with a memorandum concerning Brazilian economic and financial problems. The discussions were briefly summarized in despatch 1004 from Rio de Janeiro, February 9. (*Ibid.*, 832.00/2–956) The memorandum is enclosed as Appendix A to NAC Staff Document No. 749 (Revised). (*Ibid.*, NAC Files: Lot 60 D 137, Staff Documents)

On February 3, Nixon announced during a speech at Volta Redonda, Brazil that the Export-Import Bank had authorized a $35 million loan requested by Brazil to expand the capacity of the steel mill there. The NAC had approved this loan request at its meeting on February 1. (*Ibid.*, Minutes) For text of his speech, see Department of State *Bulletin*, February 27, 1956, pages 335–338.

327. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Brazil (Dunn)[1]

Washington, February 20, 1956.

DEAR JIMMY: I have read with a great deal of interest your letter of February 8, 1956[2] and its two attachments regarding petroleum. There is no question but that it is of the utmost importance to persuade Brazil to admit private enterprise to the petroleum industry. The reasons as I see them are:

1) The existence of an effective domestic petroleum industry is the key to the solution of Brazil's economic problems.

2) Only through private enterprise can Brazil achieve such an industry. United States financing to Petrobras would produce a wasteful, inefficient monster.

3) Sooner or later the Russians are going to offer financing to Petrobras. That will pose an almost irresistible temptation to the Brazilian government and very difficult problems for us.

This problem is tied up with our basic policy against official financing for state replacement of private enterprise generally in Latin America. We run into the same problem in the field of electric power generation and many different industrial activities. If we make Export-Import and International Bank financing available to enable governments to go into areas of industry and commerce where private capital is willing to go if permitted, then we have done Latin America and ourselves a great disservice. The socialistic thinking of some government officials and the avarice of others will combine to retard by years the development of private enterprise in Latin America. That will mean years of delay in the development of sound economies.

The memorandum of conversation between Barbosa da Silva and Terrill of January 30 intrigued me when I first read it. It indicates that Kubitschek sees clearly the importance of having an oil industry; sees that Petrobras cannot in all probability produce one; sees that the problem is one of emotions generated for Brazil by the Communists (he stated this bluntly to the Secretary and me here in Washington) and, finally, that he is determined to do something about it along the lines of private enterprise.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Brazil. Secret; Official–Informal.

[2] In this letter, Ambassador Dunn reiterated his and Assistant Secretary Holland's belief that a breakthrough on the Brazilian petroleum matter was "of utmost importance." On the basis of a recent conversation held between them and Vice President Goulart, Dunn suggested that "our immediate problem is to find a formula which would recognize the existence of Petrobras as a going concern and, at the same time, be sufficiently attractive to induce the Brazilians to amend their legislation to permit the entry of private firms." He enclosed a copy of a memorandum by Robert P. Terrill, Economic Counselor of the Embassy, dated April 6, 1955, recommending a program of U.S. assistance to Brazil for petroleum development and a memorandum of conversation between Terrill and Barbosa da Silva regarding the petroleum development question. (*Ibid.*, Central Files, 832.2553/2–856)

If we are resourceful in our thinking, we can keep Kubitschek on this course and can strengthen his resolve to pursue it. If we engage in any open or disguised financing of Petrobras in the manner suggested by the memorandum of April 6, 1955 attached to your letter, we shall dissipate the incentive presently motivating Kubitschek's thinking.

I have for some time been meditating on an alternative course, one upon which I would appreciate having your thoughts.

The Communists' success in their present propaganda program is derived overwhelmingly from the popular conviction that private enterprise in the oil industry means United States oil companies. The strongest possible approach on behalf of private enterprise would be through a group composed of some such combination as Spanish, Italian, Portuguese and Brazilian capitalists. It is my opinion that if such a group could be put together it would be possible for it to assemble adequate capital to engage in an effective, conventional oil operation.

The proposal made by such a group should contemplate that Petrobras would remain in being. The only amendment of existing legislation that would be required would be one permitting the Government to make an appropriate agreement directly with such a private enterprise group authorizing it to operate in defined areas in which Petrobras would have no rights.

This is the time to initiate thinking and action on such a proposal if it is to be followed. Kubitschek is making up his mind as to the course he will follow. The investigation of the effectiveness of Petrobras is now going on. The Russians have not yet made the overture to finance the Brazilian oil industry which I feel confident that they will eventually make.

Please let me have your thoughts. From your experience in Spain[3] you may well know of groups there around whom such a proposal could be constructed. It is my feeling that the United States oil industry might well approve such an opening wedge which, if successful, would inevitably mean that some time in the future private enterprise of all nationalities would be admitted.

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[3] Dunn served as Ambassador to Spain until February 9, 1955.

With warmest regards and best wishes, I am

Sincerely,

Henry F. Holland[4]

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[4] Printed from a copy which bears this typed signature.

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328. Memorandum of a Conversation, Department of State, Washington, April 30, 1956[1]

SUBJECT

Communism in Brazil

PARTICIPANTS

For U.S.	*For Brazil*
The Secretary	Vice President João Goulart[2]
Assistant Secretary Holland	Ambassador Muniz
A. José de Seabra, interpreter	Mr. Pinheiro, Economic Adviser
	Mr. Nascimento Silva[3]

After an exchange of greetings and amenities the conversation went as follows:

Mr. Holland stated that he was very glad that Mr. Goulart will have many opportunities to come in contact with organized labor in the United States.

Vice President Goulart stated that he is looking forward with great interest to meeting many of the labor leaders and workers in the United States.

Ambassador Muniz said that such contacts are very important especially on a "person to person" basis and if they can be increased a better understanding among the workers of our countries can only lead to better understanding among our countries.

The Secretary said that in the United States there is a certain amount of communist penetration, especially in some labor unions and some educational institutions. Communists are interested in subverting organized labor and young people.

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[1] Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Drafted by José de Seabra of the Office of Language Services on May 2.

[2] Goulart was in the United States for a 4-day official visit, April 30–May 3. Nixon had invited Goulart to visit the United States during his trip to Brazil in February. Documentation on Goulart's visit is *ibid.*, Central File 033.3211.

[3] Geraldo Eulalio Nascimento e Silva of the Brazilian Ministry of Foreign Affairs.

Vice President Goulart said that Mr. Holland is well aware of what the problems are in Brazil. It would be foolish, of course, to say there is no communist problem in Brazil. Communism finds a favorable climate in Brazil because of certain conditions, among which is the low standard of living of a large number of the population. Brazil is not asking for anything from the United States yet they want to be able to count on a sincere cooperation on the part of the United States so that their efforts to raise the standards of living may be successful. The Workers Party (PTB) which includes about 80% of the workers of Brazil is in the forefront of the fight against communist subversion, because it has something to offer the workers in the defense of their legitimate interests.

Mr. Holland stated that a strong labor movement is the most effective bulwark against communism.

The Vice President said that he knew but too well how communists tried to infiltrate labor unions and to undermine the workers party. In this connection he recalled the hard struggles he had to wage during the year he spent as Minister of Labor. Here again he said that at the very root of the difficulties encountered in Brazil today was the fact that far too many workers were getting wages below the minimum living standards. Under such conditions the communists fester dissatisfaction and create confusion by making false promises that could not be fulfilled at present. Now, if the rate of industrialization of Brazil is accelerated, the conditions favorable to the spread of communism will disappear, and then it will be possible to oppose the communists with deeds instead of just words. Also rapid economic development would bring greater overall stability.

Mr. Holland said that he is in agreement with the above remarks.

The Vice President stated that he felt that both Mr. Holland and Mr. Nixon had a sympathetic understanding and a keen awareness of the problems of Brazil. He went on to say that every time Brazilian workers are in a difficult situation because of increased costs of living, the communists gain ground as they are bound to thrive on any hardships that beset large numbers of people. In the divided world of today Brazil is unquestionably on the side of the democracies, and with the cooperation of the United States it will achieve a degree of development that will forestall any danger.

The Secretary elaborated on the depth and breadth of cooperation and understanding that has always existed between the United States and Brazil. United States-Brazil friendship is of paramount importance to the United States. He mentioned the very valuable contributions of Brazil to the cause of better international understanding: at Caracas, the role of Brazil in the framing of the anti-communist declaration;[4] time and again, how Brazil has interpreted the feelings and aspirations of the United States to other Latin American countries. The Secretary expressed gratification at the visit of Kubitschek and now Goulart, such visits being a symbol of a sound. relationship, both personal and official, that holds the key to the unity of the Americas. He concluded by saying that our foreign policy was guided by the above principles and felt confident that Brazil's was also.

The Vice President at this time paraphrased some of the remarks made before the United States Senate:[5] his coming here as the representative of a new political generation which is resolved to bring about a renovation in Brazil and wishes to strengthen the bonds of friendship between the two countries. He was glad to have the opportunity to discuss frankly the social problems of present-day Brazil, as the spokesman for the Workers Party from which he brought the most cordial greetings to the people of the United States.

The Secretary, starting from the basic consideration that in the world of today no country is too big or too strong to stand alone, but rather that countries depend very much on one another, went on to touch upon the following points:

1) The error of the Soviet leaders in wanting to become strong by ruling ever increasing numbers of subjugated peoples. It turns out that the apparent strength acquired in this manner becomes, in the long run, an actual weakness.

2) Our realization that true greatness lies not in making people do what they don't want to do but in enabling them to fulfill their aspirations.

3) The basic fact that if we help one another there will be true greatness for all. Such is the spirit that should animate the OAS as well as the vital relationships between the United States and Brazil.

The Vice President expressed great pleasure at the remarks of the Secretary with which he agreed, adding that the reason why he fought so strongly against communism was that he was categorically opposed to any form of tyranny.

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[4] Reference is to Resolution XCIII, titled "Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism," approved on March 28, 1954, at the Tenth Inter-American Conference which met at Caracas, March 1–28, 1954. For text of the resolution, see *Tenth Inter-American Conference: Report of the Delegation of the United States of America with Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 156–158. For documentation regarding the conference, see *Foreign Relations*, 1952–1954, volume IV, pp. 264 ff.

[5] For text of Goulart's remarks, see U.S. Congress, Senate, 84th Congress, 2d Sess., *Congressional Record*, pp. 7281–7283.

The Secretary pointed out that no country had ever gone communist through the choice of her people. In the Soviet Union about 200 million are controlled by a party representing only about 3% of the population.

The Vice President said that if Brazil can successfully develop her economy, she will be in a position to liquidate the communist menace and to be more active in the defense of our common cause.

At this point after mentioning a most cordial "abraço" that Kubitschek was sending to the Secretary, the Vice President expressed on behalf of the President the hope that certain agreements would be continued or expanded.

This seemed to provide an opening for Nascimento Silva and subsequently Pinheiro, who mentioned certain economic questions that are under consideration: loans, debts, etc.

Mr. Holland mentioned a memo from the Brazilian Finance Minister dealing with economic and financial matters.[6]

The Vice President said that while granting that his was basically a courtesy visit to the United States, he nevertheless had been entrusted with a mission by President Kubitschek and therefore he hoped that the attitude of Secretary Dulles and Mr. Holland would be most understanding with regard to economic matters.

In conclusion he stated that his own mission was to bring from the young generation of Brazil the warmest "abraço" together with an affirmation of loyalty and renewed wishes for ever stronger ties of friendship.

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[6] Apparent reference to a memorandum handed to U.S. representatives on February 2 by Brazilian Finance Minister Mario José Alkimin. Pointing out the dangerous level of inflation in Brazil, which had brought about social unrest, restriction of exports, and misguided investments, the memorandum proposed a "consolidation loan" from the United States of $700 million to be repaid over 20 years after a 3-year grace period. The memorandum is enclosed as Appendix A to the Working Group Study on Brazil, prepared by the ABC Working Group for the NAC Staff Committee and forwarded to the committee on May 7. (NAC Staff Document No. 749 (Revised); Department of State, NAC Files: Lot 60 D 137, Staff Documents) The ABC Working Group was set up by the NAC to prepare in-depth studies of economic conditions in Argentina, Brazil, and Chile.

329. Memorandum of a Conversation Between Vice President Goulart and the Assistant Secretary of State for Inter-American Affairs (Holland), Blair House, Washington, May 2, 1956[1]

SUBJECT

Brazilian Affairs: Economic Problem, Communism, Labor

After the luncheon given for Goulart by Mr. George Meany,[2] I called upon Goulart at the Blair House. He took me aside and made more or less the following statements. He wants us to feel that from this time forward the most enthusiastic Ambassador that the United States will have in Rio will be himself. He wants us to call on him with complete confidence at any time that he can be helpful on any subject. There will be times when he can be peculiarly helpful because the working classes have an inbred distrust of diplomats and diplomatic channels which distrust he can offset.

He felt that his mission as regards the White House was completed when he delivered the letter from President Kubitschek to President Eisenhower.[3] He had deliberately refrained from discussing any economic matters with the President because he felt that it was better for these to be handled by officials in whose normal field of activity those matters fell. He said that he felt that it would be best for him not to discuss the economic aid that Brazil was seeking from the United States because he was not prepared in that field.

I told him that undoubtedly the White House would refer the letter to the proper Government officials including the Department of State; that I understood that Mr. Piniera of his party was staying on in Washington to discuss these economic matters; that all agencies of the Government would be glad to discuss them with Mr. Piniera, and that he could count on our sympathetic consideration.

The Vice President expressed considerable relief that the matters could be handled with Piniera. Apparently he did not feel that he was qualified to discuss them himself. He said that his Government was hoping only that within the limits of what was practical the United States would help them as much as possible. He emphasized that he did not expect us to grant just anything that Brazil might request; that he realized that there would be limits on what we could do.

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[1] Source: Department of State, Central Files, 832.00/5–256. Secret. Drafted by Holland on May 3.

[2] President of AFL–CIO.

[3] This letter was delivered during a courtesy call on President Eisenhower by Vice President Goulart earlier that day. A memorandum of their brief conversation, which did not deal with substantive matters, and Kubitschek's letter, are in Eisenhower Library, Whitman File, International File.

On Communism he reiterated what he had said on other occasions to the effect that Communism was undoubtedly a problem in Brazil; that the communists consider him their enemy; that they do not oppose him openly because it would not serve their purposes to do so; that secretly and within the labor organizations they fight him; that he lost the election in several communist strongholds. He repeated his statements on other occasions to the effect that people who are hungry and poor are receptive to communist propaganda and that the best way to fight communism is to raise living standards.

I replied that this was quite true but that there was another front on which we must be vigilant, that where we combat the clandestine espionage and subversive organization of communism. I pointed out that communist agents are professionally trained and well equipped in every respect; that the only way to combat them successfully is to do so with men equally well prepared. He agreed that it was necessary to resist communism on this front as well and by means of well trained and equipped specialists.

He said that he intended to urge the Brazilian labor movement invite George Meany and several United States labor leaders to visit Brazil. I said that this would be an excellent proposal and that we would encourage Mr. Meany to go.

I told him that our Government proposed to bring approximately one hundred Brazilian labor leaders to the United States in the course of this year. He expressed satisfaction but added that we should be careful to pick labor leaders who actually represent the labor movement and who are not men now isolated from the main body of organized labor. He said that too often the people that we bring to the United States from the labor movement are men who have drawn apart and who are no longer workers themselves. He said that, if we wished, he would be glad to try to assist us in choosing labor leaders of real influence to the United States.

He criticized ORIT saying that in Latin America it was too often represented by men who are no longer closely identified by the labor movement, by older men who have no influence with the rank and file of organized labor. I asked his opinion of Serafino Romualdi.[4] He said that he was a good man but that he was identified with people who had no influence in the labor movement.

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[4] Latin American representative, AFL–CIO.

330. Paper Prepared by the Special Assistant in the Bureau of Inter-American Affairs (King)[1]

Washington, May 29, 1956.

Brazil

Although Poland and Czechoslovakia are the only Soviet bloc countries maintaining diplomatic missions in Brazil, there have been indications of Soviet interest in reestablishing diplomatic relations, and the existing missions have increased sharply their activities in the country, especially their efforts further to develop trading relationships. Many Brazilians, even though ideologically opposed to communism, sincerely feel that an expansion of trade with the Soviet bloc is essential if the Brazilian economy is to be strengthened. The local Communist Party, the largest, best organized and wealthiest in the hemisphere, is capitalizing on these feelings by a vigorous campaign of propaganda, pointing out the alleged benefits of closer relationships with the Soviet Union and the "people's democracies".

Brazil's trade with the Soviet bloc in 1955 showed a decided increase over the 1954 total of $42,000,000 (which was only 1.5 percent of total Brazilian trade). The widespread discussion in recent months of the desirability of trade with the Iron Curtain, the activities of satellite missions and trade groups, current US surplus disposal programs and local communist propaganda which coincides with sentiments which are widespread among businessmen, all make it virtually inevitable that there will be some additional increase in Brazil's trade with the Soviet bloc.

Travel of Brazilians to Iron Curtain countries does not appear to be impeded by security forces. About 150 Brazilians visited the bloc during 1955, the majority of them being youth and labor leaders. A parliamentary delegation is currently touring the Iron Curtain. Nevertheless, the Administration of President Kubitschek has given indications of an awareness of the internal communist threat and has in recent months moved firmly against subversive activities. In a series of raids over the weekend of March 17 and 18, some 20 communist leaders were arrested and over a ton of communist propaganda confiscated. It was of interest that this action was accomplished under a new chief of the Rio Political Police who had been considered "neutral." He apparently was prodded from above to take action. The Administration in recent weeks has apparently been successful in resisting all-out efforts by the communists to push through a sweeping amnesty bill under which they would have benefitted, rather than the more restricted bill providing forgiveness for those involved in political plots only since last November.

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[1] Source: Department of State, ARA Files: Lot 58 D 749. Secret.

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The Embassy as a whole has taken every occasion in contacts with key Brazilian officials to exert an influence against any tendency to turn to the Soviet bloc as a means of solving Brazil's internal problems.

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331. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Deputy Director of the Office of South American Affairs (Belton)[1]

Washington, June 7, 1956.

I have reviewed Mr. Bernbaum's memorandum attached on the proposal to refund the Export-Import Bank loans to Brazil.[2] I think that the best course is to raise this problem to the Secretary's level immediately. Accordingly, I would be grateful if you would have prepared urgently a memorandum along the following lines, making any improvements that the staff feels are desirable:

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[1] Source: Department of State, Central Files, 832.10/6–756. Secret.

[2] In this memorandum, June 5, Bernbaum proposed a position for the Department to take regarding Brazil's request for refunding outstanding balances on both its $300 million loan and $75 million credit from the Export-Import Bank. After presenting his analysis of the problem, Bernbaum pointed out that the Export-Import Bank was planning to call a meeting soon to permit a discussion and presentation of the Department's views before reaching a definite decision. He concluded the memorandum with the recommendation that those Department officers attending the upcoming meeting be authorized to urge the Bank to give favorable consideration to Brazil's refunding application for the following reasons:

"1) The burden of debt servicing during the period ending in 1960 is so great as to justify the belief that the Brazilians would not, in any event, be able to meet their full obligations to the Eximbank. It would be better to be graceful about it.

"2) Refunding would at the best permit Brazil only to maintain the low level of imports from the U.S. in 1955—judging by the Brazilian presentation and record of performance, capital goods for maintenance and raw materials would be affected far more than consumers goods.

"3) The necessity for further curtailment in the absence of refunding would jeopardize the Brazilian economy and Kubitschek's program of economic development. Eximbank loans for specific projects would be important but would not fill this gap.

"4) Although the importance of the Eximbank's readiness to extend loans on a deferred payment basis would presumably not be lost on the Brazilian Government, its reaction to a refunding refusal might, in light of the foregoing, be expected to arouse resentment and a consequent cooling off in the cordial relations thus far developed with the Kubitschek administration.

"5) This might, in turn, represent a gain for the Soviet economic offensive through strengthening the argument of those in Brazil advocating closer trade and diplomatic relations with the Soviet bloc.

Problem: Whether or not to refund the Export-Import bank loans, stating their amount.

Discussion: The Russians are engaged in an astute and aggressive campaign to expand diplomatic and commercial relations in Latin America.

The prime targets of the campaign are Argentina and Brazil. The principal weapon is Russia's willingness to supply petroleum equipment to the national monopolies contrasted with U.S. unwillingness to do so.

Our relations with Brazil and Argentina are stronger than they have been in many years. Their present strength is such that we believe each nation will refuse Russian overtures. If both nations remain firm the Russian campaign will fail throughout the hemisphere. If either nation weakens and moves into a close economic relation with the Soviets, then our position throughout Latin America will be calamitously impaired.

Both Argentina and Brazil are approaching us for economic assistance. Judged on purely banking and economic considerations we would be justified in declining to extend that assistance. The sure and certain result would be acceptance of Soviet aid with the implications indicated.

The remedy clearly required is the extension of that amount of Export-Import Bank credit that in our best judgment represents the minimum necessary to keep these two countries sturdy in their new close relations with the United States.

Brazil began by a fantastic request to the United States made at the inauguration ceremonies and contemplating $1,200,000,000. She has voluntarily shown the good sense to scale this down to a request for refunding of existing Export-Import Bank loans. The Bank has indicated that it intends to refuse the refunding proposal. The Bank prefers that Brazil meet its present contract obligations. As for new loans, the Bank would agree that their initial payments could be postponed until the burden of existing annual obligations tapers off.

From an economic and banking point of view this is an entirely reasonable decision. Its effect, in my judgment, will be to drive

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"6) On balance, therefore, the risks involved do not appear to justify the limited and perhaps questionable gains to be derived from a decision not to refund." (*Ibid.*, 832.10/6–556)

Brazil into a relationship with Russia that will have the effect on our interests in Latin America which I have indicated above.

Granting of the Brazilian proposal to refund the existing debt will cost the United States nothing. In fact, it will amount to an extension to Brazil of the 14-year payment term which we have already accorded to Argentina rather than the 7-year payment term now exacted of her.[3]

The hundreds of millions of dollars of grant-aid that we are giving away in other areas of the world are unjustifiable on fiscal and banking grounds, but they are essential to the security of the United States. The same situation, the difference being only one of degree, exists in Brazil and Argentina.

Recommendation: That at the earliest possible moment the Secretary allow me to confer with him and Mr. Prochnow on this matter in order that a Department position can be established.[4]

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[3] This paragraph was crossed out on the source text, apparently by Holland.

[4] Holland made the following handwritten comment on the source text: "Bill, if possible I'd like to have memo by end of day June 8." No such memorandum, however, has been found in Department of State files.

On June 22, representatives of the Departments of State and the Treasury, and the Export-Import Bank met to consider Brazil's application for financial assistance. A final decision was made, in which all present concurred, to defer refunding matter until Bank officials met with representatives of the Brazilian Government to determine the most effective manner in which the United States might assist in carrying out the Brazilian program of economic development. Refunding would then be considered in the context of the overall development program rather than merely on its own merits. (Memorandum of conversation by Bernbaum, June 22; Department of State, Central Files, 832.10/6–2256)

332. Minutes of the 246th Meeting of the National Advisory Council on International Monetary and Financial Problems, Washington, July 3, 1956[1]

[PARTICIPANTS]

- Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
  - Mr. Andrew N. Overby
  - Mr. Elting Arnold
  - Mr. Henry J. Bittermann
- Mr. Herbert V. Prochnow, State Department
  - Ambassador Ellis O. Briggs
  - Mr. Jack C. Corbett
- Mr. Marshall M. Smith, Commerce Department
  - Mr. George Wythe
- Mr. Arthur W. Marget, Board of Governors, Federal Reserve System
  - Mr. J. Herbert Furths
  - Mr. Robert Sammons
- Mr. Samuel C. Waugh, Export-Import Bank
  - Mr. Hawthorne Arey
  - Mr. Charles Shohan
  - Mr. John Cady
- Mr. Hale T. Shenefield, International Cooperation Administration
- Mr. Frank A. Southard, Jr., International Monetary Fund
- Mr. John S. Hooker, International Bank
- Mr. Gwynn Garnett, Department of Agriculture, Visitor
- Mr. Ralph W. E. Reid, Bureau of the Budget, Visitor
- Mr. Edmond C. Hutchinson, Bureau of the Budget, Visitor
- Mr. George H. Willis, Acting Secretary
  - Mr. Allen J. Fisher, NAC Secretariat
  - Mr. Victor A. Mack, NAC Secretariat

1. Brazilian Request for Refunding Loan and Development Credit Earmark

Mr. Arey outlined the history of relations between the Export-Import Bank and Brazil in recent years, including the $300 million credit of February 1953 and the $75 million credit of February 1955. He pointed out that more than $75 million of the former credit had been repaid, and that only $45 million of the $75 million credit had been drawn. The Brazilians wanted the Bank to refund the balance of the $300 million credit over a 20 year period. The Bank felt that refunding would only postpone payments to the very period when the Brazilians would have to make payments on any future long-term credits received in their development program. Also, Brazil was in a good position now with $90 million in lines of credit with commercial banks which were not being used, and with average dollar earnings running about $72 million a month as against $47 million last year. Furthermore, if the Bank refunded the debt it would be necessary to charge a higher rate of interest than the present 3½ percent.

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[1] Source: Department of State, NAC Files: Lot 60 D 137, Minutes. For National Advisory Council Use Only.

The Bank thought that Brazil's objectives could be accomplished just as well by the continuance by the Bank of supplier credits, and that if Brazil liquidated the short-term debt she would be in a much stronger position in 1960 to service long-term development loans. The latter would carry as one condition a waiting period on principal repayments until about 1960, which would be consistent with the Bank's usual practice with respect to development loans where only interest is collected during the construction period.

It was on this basis that the Bank suggested to the Council the proposal set forth in NAC Document No. 1963[2] that the Bank inform the Brazilians that it would be prepared to have discussions with them. The Bank would wish to consider programs on a case-by-case basis. It had information on a number of projects, such as public and private power and grain storage, and could announce some credits very shortly.

Mr. Arey also pointed out that the proposal contemplated that the Brazilians would be given opportunity to bring in applications which had been previously submitted to the International Bank, if they so desired.

On the matter of refunding, the Brazilians would be informed that the Bank would be prepared to extend maturities on short-term obligations falling due over a certain period of months, on the basis of some formula (e.g. that dollar receipts had dropped over a certain period below a certain minimum and Brazil had used its bank credits and its own lines of resources).

Mr. Waugh commented that on the occasion of President Kubitschek's visit to the United States, the Brazilians had immediately discussed their relations with the Bank. The main problem went back to the $300 million loan of 1953. Mr. Waugh thought that a great deal of progress had been made with the reduction of the loan by $75 million, and that it would be most unfortunate to extend the loan. It would be immeasurably better if Brazil could pay the loan promptly. He pointed out that in recent hearings Congress had wished to write into the record that they did not like balance-of-payments loans of this character.

Mr. Burgess commented that the Working Group Study on Brazil (NAC Staff Document No. 749, Revised)[3] was a very helpful one. He added that the foreign debt of Brazil was not large for a country of its size and industrial capacity but the maturity of the debt was very badly arranged. Brazil was also a country with very poor credit and with a serious problem of inflation. The question was how steps could be taken toward the two objectives of reestablishing credit and checking inflation.

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[2] *Ibid.*, Documents.

[3] See footnote 6, Document 328.

Mr. Prochnow agreed with the emphasis on the management of the Brazilian economy and the reestablishment of their credit. He was also in agreement with the suggestions made by the Export-Import Bank.

Mr. Marget said that the Federal Reserve Board accepted the program as outlined. However, he was troubled by the fact that there was no evidence that the Brazilians were going to be able to harness their inflation. Neither in the budgetary field nor in the field of credit had the required steps been taken. He hoped the Export-Import Bank would support any pressure from the fund or elsewhere to follow more rigorous policies.

Mr. Waugh said that the Bank had given a great deal of consideration to the point Mr. Marget had just made. They did not overemphasize it because they thought they might be considered presumptuous by the Fund. The Bank would support the Fund and would hope the Fund would support the Bank.

Mr. Smith[4] said that he endorsed everything that had been said so far. He asked whether the Export-Import Bank had any idea of the magnitude of the development loans they would have to consider. Mr. Arey replied that one estimate was for about $807 million, made up of about $300 million for electric power, $100 million for transportation, $60 million for ports and shipping, and about $347 million spread out over various items in smaller amounts and for shorter terms.

Mr. Smith asked whether these amounts were in addition to normal supplier items. Mr. Arey said that the Bank thought they included some of the supplier items. In discussions with the Brazilians the Bank had not thought it advisable to ask what their whole program amounted to.

Mr. Smith further inquired whether the development loans would necessarily be dollar loans. Mr. Waugh said they would be for dollar requirements. Mr. Overby suggested that the phrase "United States goods and services" be substituted for "dollar requirements" in paragraph 2 in order to make clear the kind of financing contemplated. This was agreed.

The Chairman said that he read paragraph 2 of the proposal, which referred to taking into account the general economic conditions and policies of the country, to imply that the Export-Import Bank would be proceeding pari passu with the steps the Brazilians would take. Mr. Arey expressed agreement unless it meant that the Bank should say that it would only make loans provided the Brazilians took certain specified actions. It would rather be a matter of working along with the Brazilians.

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[4] Deputy Assistant Secretary of Commerce for International Affairs.

The Chairman said he understood there was no idea of opening up a credit line and going ahead regardless of developments in Brazil. Mr. Waugh agreed. Mr. Overby suggested that the introductory paragraph of the proposal indicate that the discussions would deal with the economic problems of the Brazilians as well as with their applications for loans. This was agreed.

Mr. Shenefield[5] said that the International Cooperation Administration was generally in agreement with the Export-Import Bank proposal. Mr. Reid agreed that the approach as amended was entirely reasonable.

Mr. Garnett[6] observed that the Department of Agriculture had a stake in Brazil but had no comment on this particular proposal. The Chairman asked about the status of sales to Brazil under P.L. 480 for local currency. Mr. Garnett said one program was just being completed and a 3-year program was under negotiation. The Chairman inquired whether some of the local currency derived from these sales would be loaned. Mr. Garnett replied that it was hoped a large amount would be used to take care of the local currency component of power projects. Mr. Shenefield added that ICA was about to sign a $30 million loan agreement covering the purposes for which the local currency would be used and much would go to subsidiaries of the American and Foreign Power Company.

Mr. Overby suggested that the last part of paragraph 2 of the proposal be changed to read "including projects which Brazil may wish to transfer from the International Bank to the Export-Import Bank". He added that the International Bank had been warned by him that it was quite possible that Brazil might wish to transfer some projects to the Export-Import Bank. As of the moment, the International Bank was not enthusiastic about making further credits to Brazil.

The Chairman observed that it was recognized that Brazil was a country in which the United States had very special national interests. This relationship tended to lean toward doing more through the Export-Import Bank than through the International Bank. Mr. Overby added that he had advised Mr. Black of the position that borrowers seeking to finance United States goods and services normally may look to the Export-Import Bank as the source of financing.

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[5] Adviser on International Monetary and Financial Affairs, Office of the Assistant to the Director of ICA for Finance.

[6] Administrator of the Foreign Agricultural Service.

The Chairman pointed out that there might be parts of the program which could be worked out most appropriately with the International Bank. There was no attempt to make the program exclusively the property of the Export-Import Bank any more than of the International Bank.

Mr. Prochnow thought there should be some reference to private capital in the proposal. Mr. Overby suggested that this might be done by inserting in paragraph 1 a reference to what might be done "by Brazil to attract private capital". This was agreed.

Mr. Southard stated that the Fund had had two missions in Brazil in 1956. However, the prospect for energetic Brazilian action in the field of domestic stabilization and systematic overhaul of their exchange system in 1956 was very poor. Currently the Brazilians were running an average of more than $60 million of dollar earnings per month so they did not have pressures arising out of balance-of-payments crises. However, he thought the proposal represented a perfectly adequate approach and the Fund would continue to work on the Brazilian problem with a tacit understanding with the Export-Import Bank that pressure for housecleaning would be all to the good.

Mr. Waugh commented that President Kubitschek had considerable political knowledge and courage, and had indicated he would be willing to do some things which would make him an unpopular president.

Mr. Southard observed that he had only been speaking of the present calendar year. The Brazilian Government had a difficult political problem in its relations with the Brazilian Congress since it was a minority party. The chance for drastic reform in the early days of the new administration had been missed, but if inflationary pressures built up again something might be done.

The Chairman observed that the implication of the proposal was that the Export-Import Bank would hold to the schedule of maturity of loans. Mr. Waugh said that any weakening on that point would be tragic from the standpoint of the Export-Import Bank. Mr. Southard agreed with this observation.

The Chairman stated the consensus of the Council was that the Export-Import Bank should go ahead along the general lines that had been presented.

The following action was taken (Action No. 901):

> "The National Advisory Council advises the Export-Import Bank that it has no objection to the proposal for discussions with the Brazilian Government outlined in NAC Document No. 1963 (Revised)."

Mr. Waugh said that he wished to make two final comments. One was to emphasize again the confidential nature of the discussions and the need to safeguard against leaks. The other was that if any branch of the Administration had any conditions precedent to suggest, the Bank should have them before and not after it got into the negotiations.

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333. Telegram From the Ambassador in Brazil (Dunn) to the Department of State[1]

Rio de Janeiro, July 3, 1956—6 p.m.

14. I took up with President Kubitschek this morning your 1334.[2] The President said that while he did not wish to bother President Eisenhower with details, he was planning to take up with him at Panama[3] his economic program and related to this was the matter of the new PL 480 wheat transaction. He said he did wish the President to know of the political aspects of these negotiations as far as Brazil was concerned and that the question of denomination of the PL 480 loan contract as well as matter of prior US agreement to Brazil loans for development both played an important part in the political picture here.

The President was very frank in talking of the political difficulties of his administration. He said the Communist attacks were increasing, particularly since he had taken an open stand against them and these attacks were being joined in by the political opposition. He said that it was his policy to commit Brazil to the closest collaboration with the US, but that the elements who were promoting extreme nationalism here were taking every advantage of this attitude to try to weaken his position before the country. He said he was opposed not only to communism but extreme nationalism. He added that even some of his close associates were beginning to weaken in face of the violent political attacks against his administration and were advising against his determination for close and special relations with the US. He remarked that certain European officials had given similar advice in the course of his pre-inaugural trip. He said that certain of his friends were counseling him to cancel present agreements for the exportation of atomic minerals to the US. He himself was against such action as he felt Brazil should carry out its commitments.

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[1] Source: Department of State, Central Files, 732.11/7–356. Confidential.

[2] Telegram 1334 concerned complications arising from U.S.-Brazilian negotiations for a new P.L. 480 wheat agreement. President Kubitschek insisted that his government would be criticized if it did not obtain the wheat on the same terms as the previous Brazilian Government. He urged reconsideration of the principle of repayment without the stated rate of exchange for the whole 1.8 million ton transaction. (Telegram 1571 from Rio de Janeiro, June 19; *ibid.*, 732.11/6–1956) In telegram 1334, June 28, the Department instructed the Embassy to attempt to explain the exchange problem directly to Kubitschek in an effort to have the President withdraw his appeal for reconsideration of the agreement. The Department pointed out that while the dollar denomination represented an inconvenience to Brazil it had been acceptable to all other countries. Its waiver, moreover, would involve disruption of the worldwide program, with other countries demanding equal treatment and the revision of existing agreements covering hundreds of millions of dollars. (*Ibid.*)

[3] Reference is to the proposed meeting of the Presidents of the American Republics, scheduled to be held at Panamá, July 22. For documentation on this meeting, see vol. VI, Documents 109 ff.

The President stated categorically that if he did not have strong support from the US in carrying out his policies; he would be very much weakened and his administration would fail to achieve the high objectives which it had undertaken. I detected a slight indication of discouragement on his part or at least the need of some encouragement from US to face his difficulties with resolution.

I told the President that I was sure that President Eisenhower and the American Government would be very glad to discuss with him any of the problems he wished to bring up, . . . and that I felt he was making a sincere effort to bring order into the economy of Brazil, that he had adopted a sensible line in encouraging foreign investments and that his attitude toward private enterprise was the right one, particularly with respect to the whole subject of atomic energy.

I believe the Kubitschek administration is at a critical crossroads at this time. Kubitschek has made himself vulnerable to criticism here by taking such a strong stand toward friendship for the US. I believe that he feels that we have not given him in full measure the strong and intimate support he hoped he would receive from US. We have, in my opinion, a staunch friend and if we did not have a chief of state here who was so attached to friendly relations with US we would be trying our best to bring him around to closer collaboration. I believe it is to our own mutual interests to keep him with us by encouraging him in his present policies and by doing everything we reasonably can to help him in a tangible manner.

Dunn

334. Editorial Note

On July 11, Holland forwarded a memorandum to Dulles entitled, "Importance of Present United States Relations with Argentina, Brazil and Chile." The memorandum is printed as Document 214.

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335. Telegram From the Secretary of State to the Embassy in Brazil[1]

Washington, July 17, 1956—7:50 p.m.

66. Brazilian delegates here state Kubitschek intends upon return from Panama to announce PL 480 agreement and presumably any financing agreements as having been negotiated between him and President Eisenhower at Panama. Although sympathetic his objectives Department convinced such action would lead to serious difficulties with other Presidents attending meeting. We have gone to elaborate lengths to avoid even the appearance that decisions will be reached at this meeting on any substantive problems. You accordingly requested bring this to attention appropriate official with urgent request that announcements of any PL 480 or financial agreements state that they resulted from conferences in Washington between Brazil and U.S. representatives, and that such agreements not be attributed to conferences between Presidents at Panama. Moreover, the two Governments should agree in advance on timing of any announcement by either.[2]

Dulles

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[1] Source: Department of State, Central Files, 411.3241/7–1756. Confidential; Priority. Drafted and approved by Holland; cleared with S/S and by phone with Barnes and Kalijarvi.

[2] On July 18, Dulles had a conversation with Secretary of the Treasury Humphrey during which they discussed, among other matters, the proposed loan agreements with Brazil. The memorandum of conversation, drafted by Dulles, reads:

"Secretary Humphrey questioned the advisability of the Export-Import Bank coming to an agreement with Brazil for a further loan immediately before or during the Panama meeting. He also thought that any agreement should deal with the problem of funding or otherwise providing for their early maturities.

"I said I agreed that it would be a mistake to couple the matter with the Panama meeting. I hoped, however, that if the arrangement carried over beyond the meeting, it would not carry over for long. Secretary Humphrey thought that it did not need to carry over for long. At one point he mentioned 'a month or two'. I said that would be too long and he said he saw no reason why it had to be that long." (Eisenhower Library, Dulles Papers, General Memoranda of Conversation)

336. Editorial Note

On July 19, the National Advisory Council, after reviewing a draft Export-Import Bank announcement presented to it, "approved for consideration by the President and Board of Directors of the Export-Import Bank the proposed recommendations for loans totalling about $151.4 million set forth in said draft announcement, with any appropriate changes in the proposed form and the timing of any announcement thereof to be determined by the President and the Board of Directors of the Export-Import Bank and the Secretary of State." (NAC Action No. 907; Department of State, NAC Files: Lot 60 D 137, Actions) The full minutes of the meeting are *ibid.*, Minutes. The loans were jointly announced by United States and Brazilian officials on July 31 in Washington and Rio de Janeiro.

A detailed analysis of the Export-Import Bank loans to Brazil and overall United States policy vis-à-vis President Kubitschek's economic program is printed in *Current Economic Developments,* No. 499, August 7, 1956, pages 23–27 (*Ibid., Current Economic Developments:* Lot 70 D 467) *Current Economic Developments* was a semimonthly classified periodical prepared by the Bureau of Economic Affairs in the Department of State for internal use as a background and policy guidance report for policy-level officers of the United States Government serving in the United States and abroad.

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337. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Deputy Under Secretary of State (Murphy)[1]

Washington, July 20, 1956.

SUBJECT

Interim Use of Fernando de Noronha (Brazil) by U.S. Forces

Following discussion at ARA's staff meeting this morning in which Henry Holland participated, it was decided that it would be unwise for the U.S. to attempt to bring pressure on Brazil at this particular moment to obtain interim right of entry on Fernando de Noronha. However, we expect that the discussions between Presidents Eisenhower and Kubitschek in Panama will cover the major points at issue between our two governments, including the U.S. desire for a military facilities agreement with Brazil and Brazil's desire for additional U.S. military equipment. The briefing papers include a reference to Defense's need to use Fernando de Noronha on an interim basis.[2]

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[1] Source: Department of State, Central Files, 711.56332/7–2056. Secret.

If things go well, as we hope, this question may be easier to resolve within the short-term future than right now. For your information, the discussions between our own and the Brazilian negotiators during the past week on (1) financial matters, and (2) PL 480 program have gone satisfactorily.

Attached hereto is a memorandum[3] which outlines some of the reasons why the negotiation of a military facilities agreement with Brazil has been delayed since 1952 when the Department was first informed of Defense's interest in such an agreement. You may not wish to go into such detail in your discussion with Mr. Gray, but it is clear from the attached document that the Defense Department has been responsible for the delays of the past five months in getting down to the business of actual negotiations with Brazil after all other obstacles have been removed.

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[2] Reference is to the position paper entitled "Brazil: US Need for Military Facilities in Brazil," numbered PAN D–3/3 and dated July 19, which was prepared by Rowell and cleared with Sayre, Bernbaum, and the Department of Defense. (*Ibid.*, MID Files: Lot 57 D 95, Briefing Papers)

[3] *Infra.*

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338. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Deputy Under Secretary of State (Murphy)[1]

Washington, July 20, 1956.

SUBJECT

Negotiation of Military Facilities Agreement with Brazil

I believe Mr. Gray's inquiry of you regarding our action on Defense's request to obtain from Brazil an interim right to entry on Fernando de Noronha provides a good opportunity to discuss with

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[1] Source: Department of State, Central Files, 711.56332/7–2056. Secret. Drafted by Sayre.

Mr. Gray our problem of getting prompt answers from Defense to questions that have arisen in the course of our preparations for negotiations, and now the negotiations. This problem was discussed between Mr. Bennett[2] and Mr. Sayre on July 13. The background of our problem is as follows:

We have known since late 1952 that the Department of the Air Force is interested in a guided missile tracking station in Brazil. In early 1952 we were also advised that the Army had an interest in obtaining real estate in Brazil for an Army communications station. At that time, however, it was unwise for us to explore this problem with the Brazilians on a diplomatic level because the Brazilian Government was under vigorous attack both in its Congress and in the press for concluding a Military Assistance Agreement with the United States. It was over a year before the Brazilian Congress approved that Agreement. When Defense's requirements became a little more firm we did agree, however, that Defense representatives could approach the Brazilian military and attempt to obtain approval for site surveys. This was done in late 1954 and 1955.

Brazil had a major political crisis in 1954 which resulted in the suicide of Vargas in August 1954. Vargas was followed by the caretaker government of Cafe Filho who was unwilling to make firm commitments. Brazil was also going through preparations for a presidential election which took place October 1955. All of these factors combined to make it unwise to attempt to negotiate such a delicate matter as a base agreement and have it become a major political issue in Brazil. Nevertheless, Defense went ahead with its surveys and completed them in early 1956.

The election in October 1955 was followed by continued political unrest for Brazil in which the military felt compelled to step in and install a temporary president in November 1955. After the inauguration of Kubitschek in January 1956, however, we advised Defense we were prepared to negotiate and informally asked for a revision of the Agreement Defense had proposed in October 1954, and for a restatement of Defense's requirements. You made this request officially in your letter of March 29, 1956.[3] Mr. Gray answered your letter in part on May 11,[4] but as you pointed out in your letter to him of May 25,[5] the Department could not undertake to negotiate an agreement until such time as Defense gave us the draft it wanted negotiated. We received an advance copy of the proposed agreement on June 21[6] and this was forwarded to Ambassador Dunn, but formal Defense approval of the agreement was not received until June 26. It was then five months after we told Defense we were prepared to negotiate.

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[2] W. Tapley Bennett.

[3] Not printed. (Department of State, Central Files, 732.5–MSP/3–1956)

[4] Not printed. (*Ibid.*, 732.5–MSP/5–1156)

[5] Not printed. (*Ibid.*)

We sent our instruction to the Embassy on July 3[7] and followed that by a telegram on July 5 asking the Embassy to present the Agreement it had received previously.[8] The Embassy held its preliminary discussions with the Foreign Office on July 10 and reported these in telegram No. 45.[9] Brazilian Foreign Office officials . . . suggested that the same facilities be negotiated under the terms of the MDA Agreement which had already been approved by the Brazilian Congress. Defense gave us its comments on July 18[10] to a draft telegram to our Embassy on this point which we gave Defense on July 11.

Mr. Gray should be aware that his own Department has not handled this matter on a priority basis and that the difficulty we have in getting answers from Defense has held us up considerably. On the specific question about an interim right of entry on Fernando de Noronha, our Embassy has recommended against making such a request until it could present our proposals to the Brazilian Government. We have been unable to do this because Defense did not give us formal clearance until June 26 to negotiate and has now taken over a week to answer the Embassy's inquiry about handling the negotiations under the MDA Agreement.

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[6] The proposed agreement was enclosed in a letter from Lieutenant General Alonzo P. Fox of ISA to Murphy. The agreement reads in part:

"The facilities which the Department of Defense desire are:

"1. Guided Missile Tracking Station on Fernando de Noronha;

"2. Two airbases, one at Belem and one at Natal;

"3. An Army communications facility in the area of Maceio; and

"4. Permission for the establishment of three Coast Guard Loran Stations.

"Pending completion of negotiations for the new agreement, the Air Force has an immediate requirement for an interim right of entry at Fernando de Noronha to permit the start of construction. The Embassy is therefore requested to seek such right of entry to be effective on or before July 1, 1956.

"It is apparent from reports by the Embassy that the Brazilian Government plans to treat our request for military facilities on a quid pro quo basis. The Embassy should make clear early in the negotiations, however, that the United States hopes the Brazilian Government will receive our proposal for facilities in the same spirit of cooperation which has long characterized relations between the two countries and that the Brazilian Government will not make any particular Brazilian military request a prerequisite to providing the facilities we desire. The willingness of the United States to cooperate to the maximum extent possible with Brazil in the military field is demonstrated by the military assistance we have already provided and that which we are prepared to offer at this time." (*Ibid.*, 732.56311/6–2156)

[7] Not printed. (*Ibid.*, 732.5–MSP/7–356)

[8] Telegram 21 to Rio de Janeiro, not printed. (*Ibid.*, 732.5–MSP/7–556)

[9] In telegram 45, Chargé Trimble reported that the Secretary General of the Brazilian Foreign Office had warned him that the proposed facilities agreement would certainly be attacked by opposition elements in Brazil and final action would be delayed. He had also suggested that a separate agreement of the kind contemplated would probably require Congressional approval. (*Ibid.*, 732.5–MSP/7–1056)

[10] Not found in Department of State files.

I would suggest Mr. Gray also be informed that we are prepared to make a request for interim right of entry for the guided missile station when we receive Defense clearance on a reply to our Embassy's questions about negotiating under the MDA Agreement. We have also asked the President to bring this problem to the attention of the Brazilian President during the Panama meeting.

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339. Memorandum of a Conversation, Panama City, July 22, 1956[1]

PRESENT

The President	President Kubitschek
Lt. Col. Vernon A. Walters	Ambassador Amaral Peixoto

President Kubitschek opened the talk by expressing his gratitude to the President for receiving him and his pleasure at seeing how far he had recovered from his recent operation. He said that he had no intentions of taking up the President's time with a mass of unimportant details. He merely wanted to say that he had seen on the previous night the members of the Brazilian Economic Mission who had recently been in the United States. He was very well satisfied with what they had told him regarding the talks they had held in the United States. There did not seem to be any major problems on which there was sharp disagreement. There was, however, one matter on which he would be grateful if President Eisenhower would look into the question and that was the matter of wheat. If some satisfactory arrangement could be arrived at on this, it would strengthen his hand for taking a firm line against the Communists in Brazil. President Eisenhower said he would look into this matter and asked Ambassador Amaral Peixoto whether this had been brought to Secretary Dulles' and Mr. Holland's attention. The Ambassador said that it had and the President again said that he would look into the matter.

President Kubitschek then said that the Communists' main effort in South America now was directed at making trouble between the United States and the countries of Latin America. The President said that the new Communist line of sweetness and light was perhaps more dangerous than their propaganda in Stalin's time. He said that now they were preaching "nationalism" rather than "internationalism" and in some places this had an even greater attraction.

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[1] Source: Eisenhower Library, Whitman File, International File. No indication of the drafting officer appears on the source text. The conversation was held in President Arias' suite at the Hotel El Panama.

President Kubitschek said that he was attempting to solve a number of Brazil's economic problems and that their solution would make his hand even stronger in dealing with the Communists in Brazil.

He thanked the President for seeing him and said that he did not wish to take up any more of his time. He and Ambassador Peixoto then took their leave of President Eisenhower.[2]

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[2] In Secto 7, July 23, Assistant Secretary Holland transmitted the text of an unsigned note from Kubitschek to Eisenhower. In the note, the Brazilian President stated that he had been informed of the conditions under which the United States would be prepared to supply Brazil with 1.8 million tons of surplus wheat. "Since these conditions are the most favorable ones that your government is in a position to offer," he wrote, "my government is prepared to accept them. I would highly appreciate it if a decision could be reached on a firm commitment for the sale of the above mentioned quantity, in order to enable me to implement measures relevant to the economic development program of Brazil." (Department of State, Central Files, 411.3241/7–2356)

On July 31, President Kubitschek officially announced that Brazil had concluded a new loan agreement with the Export-Import Bank and that negotiations with the United States were underway regarding a surplus wheat transaction. The P.L. 480 wheat agreement was signed in Washington on December 31, 1956, and entered into force on the same date; for text, see 7 UST (pt. 3) 3475.

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340. Editorial Note

On August 30, President Kubitschek, acting as head of the Brazilian National Security Council, approved recommendations by the Ministerial Committee on Atomic Energy regarding Brazil's atomic energy policy. Among the recommendations was the proposed cancellation of several agreements with the United States in the atomic energy field. Newly-appointed Ambassador Ellis O. Briggs reported these developments in telegram 242 from Rio de Janeiro, August 31. (Department of State, Central Files, 832.2546/8–3156)

In telegram 247 from Rio de Janeiro, September 3, Briggs commented that the recommendations were "unquestionably nationalistic in tone" and suggested that they had increased the prospect for the establishment of an "atombras" in Brazil. (*Ibid.*, 832.2546/9–356)

Briggs, appointed by the President as Ambassador to Brazil on May 29, presented his credentials to the Brazilian Government on July 24.

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341. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, September 6, 1956—11 p.m.

266. Re Embassy telegram 265.[2] Saw Foreign Minister[3] this evening re atomic matters, said talks with President had been brief but that I had told him of concern of my government at way things going. I explained to Macedo Soares that message in question (Embassy telegram 202)[4] had indicated my government might shortly have no recourse than to review the various aspects of atomic arrangements thus far under discussion. Foreign Minister made series of declarations in line with assurances of Kubitschek including statement Brazilian desires develop atomic energy with US collaboration and August 31 resolution "has not changed that". He said Brazilian Government serious in purpose to pursue development with US and that matter would now be vigorously pushed; group handling atomic matters here will be reduced to manageable proportions and his government considers solution urgent and important.

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[1] Source: Department of State, Central Files, 832.1901/9–656. Secret; Niact.

[2] In telegram 265, also of September 6, Ambassador Briggs reported a conversation with President Kubitschek that afternoon regarding atomic energy matters. During their talk, Kubitschek assured Briggs that the recent resolution should not be interpreted as indicating any change in the Brazilian position concerning atomic energy policy. On the contrary, he pointed out that it was his intention to continue a policy of close collaboration with the United States in the atomic energy field. The resolution of the National Security Council, Kubitschek explained, had been taken in order to terminate public and Congressional airing of a matter which the executive had concluded had gone far enough. He suggested, furthermore, that the resolution had been intended to head off Communist and ultranationalist agitation. (*Ibid.*, 832.2546/9–656)

[3] José Carlos de Macedo Soares.

[4] Apparent reference to telegram 202 to Rio de Janeiro, September 4, in which the Department informed the Embassy that it was "deeply concerned present atomic energy developments Brazil." It instructed the Embassy to consult with Brazilian Government officials at the highest level regarding policies which Brazil was likely to pursue in the atomic energy field. (Department of State, Central Files, 832.2546/9–356)

As soon as things quiet down (evidently reference to Communist-Nationalist agitation of past few weeks) new negotiations with US will be undertaken. He again urged that US attitude toward August 31 resolution should be in effect "think nothing of it."

Comment and conclusions:

. . . .

(3) With Trimble already departed and Terrill now only officer with background knowledge of details this complex problem, leaving next week, suggest Department consider temporary assignment to Rio soonest of someone capable advising Embassy, interpreting developments, and if necessary engaging working level atomic discussions here next few weeks. Such individual should be fully responsible to chancery and should if possible have technical competence as well as knowledge background including key individuals in this field in Brazil.

Briggs

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342. Memorandum of a Conversation Between the Brazilian Ambassador (Amaral Peixoto) and the Assistant Secretary of State for Inter-American Affairs (Holland), Department of State, Washington, September 10, 1956[1]

SUBJECT

Atomic Energy—Brazil

I told the Ambassador that in a very informal and personal way I wanted to express to him the concern that is growing within this Government and the adverse public opinion that is being created by recent occurrences in Brazil in the field of nuclear energy. I referred specifically to the recent cancellation of the agreement regarding the sale of thorium and cancellation of the agreement regarding exploration for uranium. These events, plus some other problems were having, I feared, a serious effect here.

. . . .

The Ambassador said that he wanted me to understand his position; that before he had come here many of his friends had urged him not to accept this post, but to stay on in Brazil where his political position was secure. He had decided to come because he felt that he could make a real contribution to good relations between the United States. He felt that in coming here he was serving the real best interests of Brazil.

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[1] Source: Department of State, Central Files, 832.1901/9–1056. Confidential. Drafted by Holland on September 11.

. . . .

The Ambassador said that he would specifically recommend . . . that the Brazilian Government push ahead as rapidly as possible to the conclusion of agreements with the United States in this field and . . . that the Atomic Energy Commission which has been set up in Brazil negotiate new agreements for the sale of thorium and exploration of uranium in lieu of those which have been canceled.

. . . .

He showed to me a press statement that he intended to issue when he left my office, and I agreed that it would be satisfactory.

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343. Telegram From the Secretary of State to the Embassy in Brazil[1]

Washington, September 15, 1956—5:45 p.m.

239. During courtesy call on Brazilian Ambassador yesterday he brought up atomic energy situation. This is further evidence his government's preoccupation over effect in U.S. of August 31 resolution. His remarks generally in line statements to Holland when latter summoned him September 10 (Deptel 231 September 14)[2] with several additional observations:

Amaral Peixoto mentioned recent talks with atomic energy interests in U.S. especially preparations for research reactor at Sao Paulo. He confirmed Brazil's keen interest therein and expectation U.S. still disposed proceed with this project. I replied U.S. of course desired collaborate with Brazil in development atomic resources but pointed out such collaboration to be effective also requires atmosphere in Brazil conducive to success of our joint efforts. I said we could accordingly only view with concern irresponsible and unjustified attacks of last month which culminating in aforesaid resolution was forcing us to review general atomic situation.

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[1] Source: Department of State, Central Files, 611.3297/9–1556. Drafted by Briggs, cleared in draft with Bernbaum, and approved by Rowell.

[2] Telegram 231 to Rio de Janeiro summarized the memorandum of conversation, *supra*. (*Ibid.*, 611.3297/9–1556)

Ambassador asked whether Embassy Rio has "heard from Foreign Office." I referred to my conversation with FonMin September 6 (Embtel 266 September 6[3]) and gathered from Pexioto his question referred to FonMin's statement that "new negotiations" might be undertaken with U.S. rather than to preparation basic atomic legislation. I told him insofar Department informed Embassy has had no further discussion with FonMin this subject since September 6.

Ambassador made further remarks belittling importance of resolution and reiterating desire Kubitschek administration to utilize U.S. facilities, experience, et cetera in developing Brazilian nuclear resources. In that connection he said Congressman Archer[4] phoned him from Rio September 13 reporting departure that night for Great Britain and France to discuss business matters, returning via Washington to consult with Ambassador. Archer according to Ambassador professed friendship for U.S. and desire to be helpful in present situation. Peixoto apparently sought to imply Archer has turned over new leaf. I remarked that if this true public indication is change of attitude would be of interest, having in mind Archer one of principal proponents of last month's anti-U.S. campaign.

FYI foregoing and previous Brazilian efforts to give impression August bonfire of nationalism really feeble spark in wet leaves, now extinguished, I find unconvincing except as indicative of hope U.S. Government may overlook recent developments and proceed as if nothing has happened, without requiring action by Brazilian Government. Further comment in succeeding telegram.

Dulles

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[3] Document 341.

[4] Brazilian Congressman Renato Archer.

344. Telegram From the Acting Secretary of State to the Embassy in Brazil[1]

Washington, November 21, 1956—6:07 p.m.

419. Peixoto–Strauss meeting (Deptel 371)[2] held 21st. Peixoto did not ask for specific new areas cooperation but spoke at length re "now favorable" atmosphere U.S.-Brazilian cooperation. Said he did not know why power reactor instructions not yet received but if not received within month would go Brazil straighten things out.

Strauss assured Peixoto our desire cooperate fully establish sound atomic energy program with Brazil but indicated technical problems arising as result uncertain status existing agreements beginning to cause some difficulty. Peixoto said he had recommended prospecting be resumed. Also although GOB had approved Brazilian NSC recommendation no intention cancel sales contracts. He added new commission good; chairman his personal friend and other members three of whom recently in U.S. all good men and well disposed.

. . . .

Department believes, your discretion, it might now be useful reinforce Strauss–Peixoto talk by taking advantage opening afforded FonMin statement (Embtel 495)[3] to seek full discussion atomic energy situation with him along lines your talk with Muniz. Emphasis should be placed on desirability full cooperation in policy and organization field Brazil's program to prevent possible monopoly orientation but problems existing contracts, which are of more importance Brazil than U.S., might be mentioned as symptomatic of present unsatisfactory situation. While status contracts should not be overemphasized it might be pointed out that their early clarification would not only serve as indication Brazilian intentions but would also solve certain technical problems re personnel and funds. . . . Action on this case becomes increasingly important as leasing arrangement for reactor fuel should be signed soon to avoid upsetting construction schedule.

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[1] Source: Department of State, Central Files, 832.1901/11–1056. Secret. Drafted by Ernest V. Siracusa, Officer in Charge of Brazilian Affairs, and approved by Rubottom.

[2] Telegram 371, November 9, transmitted to the Embassy a proposed agenda for the Peixoto–Strauss meeting, arranged at the latter's request. (*Ibid.*, 832.1901/11–956)

[3] In telegram 495, November 16, Ambassador Briggs reported a recent conversation with Macedo Soares in which the Foreign Minister noted the Brazilian armed services' concern about the international security situation in light of the Suez and Hungarian crises. Macedo Soares had suggested, accordingly, that it was a propitious time for the United States to move ahead and obtain solutions to its various problems with Brazil, including arrangements in the atomic energy field. (*Ibid.*, 732.5–MSP/11–1656)

Hoover

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345. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, December 5, 1956—11 a.m.

558. Embtels 550[2] and 557.[3] In view continuing delay on military facilities Embassy officer discussed situation on November 30 on informal, personal basis with Ambassador Carvalho e Souza, chief of political department, who in recent weeks has taken leading role in Foreign Office efforts obtain agreement military authorities on affirmative response re guided missiles project in particular. Ambassador Carvalho stated despite every effort final agreement not yet obtained. On contrary, National Security Council representatives at meeting November 29 insisted facilities used on Fernando de Noronha island must be limited to remainder period Kubitschek administration, i.e., four years, arguing that next administration could extend agreement if it saw fit. (As reported Embtel 446[4] Foreign Office draft provided for period of ten years renewable for another ten and denunciation on one year's notice.)

In view this negative development Embassy official in meeting November 30 expressed grave concern distinct possibility breakdown negotiations, remarking that Embassy understood US Air Force had set December 10 as deadline for awarding construction contract on Noronha Island (re Deptel 437). If satisfactory agreement could not be reached very soon it therefore appeared that we might be forced abandon project. Such development would be bound have negative effect on relations our two countries, particularly unfortunate at this moment of great international tension. Embassy official stressed that these observations were made in spirit of frank and open discussion of common problems which has marked our relations with Foreign Office, and should not be interpreted in any sense as exercise of undue pressure but rather as statement of factual situation.

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[1] Source: Department of State, Central Files, 732.5–MSP/12–556. Secret; Priority.

[2] In telegram 550, November 30, the Embassy requested clarification of the term "interim right of entry." In an earlier message (telegram 437 to Rio de Janeiro, November 16; *ibid.*, 732.5–MSP/11–1656), the Department had informed the Embassy that the Air Force's present schedule for construction of the guided missile station at Fernando de Noronha required Brazilian approval of an interim right of entry by December 10. In telegram 550, the Embassy inquired whether the United States was prepared to begin construction, or make firm commitments with contractors regarding construction, after the conclusion of an agreement with the Brazilians "in principle," hoping that an agreement regarding specific commitments could be reached at a later date. "If we are not prepared to proceed on this basis," the telegram noted, "Embassy frankly believes there is no prospect meeting December 10 deadline mentioned Department telegram 437." (*Ibid.*, 732.5–MSP/11–3056)

[3] Telegram 557, December 4, transmitted the text of a Brazilian Foreign Office memorandum setting forth the views of the Brazilian Navy on assistance desired from the United States. (*Ibid.*, 732.5–MSP/12–456)

[4] Dated November 2. (*Ibid.*, 732.5–MSP/11–256)

. . . .

At further meeting late yesterday Ambassador Carvalho recounted further unsuccessful discussions with military over weekend. Foreign Ministry has therefore decided take issue to President and to this end paper prepared outlining situation for his background information. Ambassador Carvalho read excerpts which state case clearly and forcibly.

It is our considered opinion that whole matter must be brought to conclusion in very near future. Foreign Office anticipates discussion with President this week and delivery note to us next Monday if necessary backing obtained. Department's views requested on (1) reported December 10 deadline, (2) whether we are prepared accept indicated period duration with denunciation on one year's notice, and (3) acceptability authorization proceed with construction without specific written agreement on customs privileges, tax exemptions and criminal and civil jurisdiction over US personnel. On latter point Ambassador Carvalho expressed opinion military not likely create difficulties.

In connection this whole problem it seems more than ever apparent in light memorandum now received listing assistance desired by Brazilian Navy (Embtel 557) that aside from sensitiveness on sovereignty question negative attitude of Brazilian military strongly influenced by failure obtain desired military assistance from US.

Briggs

346. Telegram From the Acting Secretary of State to the Embassy in Brazil[1]

Washington, December 12, 1956—6:58 p.m.

490. Following summarizes Rubottom–Peixoto meeting December 7 arranged latter's request:

1. Brazil request merchant vessels. Rubottom assured Department's willingness seek Congressional authorization sale vessels if they available and surplus to U.S. needs, and that Department seeking views other agencies. Suggested present time might be inopportune due international uncertainties and warned it might not be possible approve first trip cargo this time if vessels eventually sold to Brazil.

2. Interest charge on military aircraft credit. Peixoto said Brazil not informed this charge would be made until negotiations completed and did not provide for it in budget. Said if interest required Brazil might not be able purchase aircraft which it intends use continental defense. Minister Valle[2] said this problem could influence attitude Air Ministry on Defense Sites. Rubottom explained reasons for NAC interest requirement but said question would be investigated to assure no discrimination against Brazil.

3. Rubottom outlined urgency our need interim right entry Fernando de Noronha and asked Peixoto communicate this information promptly his government and to President if possible.

4. Peixoto asked if Brazil would receive adequate petroleum supplies view Suez crisis. Rubottom said whole question under study and did not know what eventual situation might be. Said we have hemisphere needs in mind and would seek equitable treatment. Said present indications are Western Europe would suffer cutbacks 20 to 25% and emphasized that problem one of transportation shortage rather shortage petroleum.

. . . .

6. While press here sought link Peixoto visit to possible protest guided missile mishap, he only made jocular reference to it.

Hoover

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[1] Source: Department of State, Central Files, 732.5–MSP/12–1256. Confidential. Drafted by Siracusa and approved by Bernbaum.

[2] Henrique Rodrigues Valle, Minister-Counselor of Brazil.

347. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, December 13, 1956—11 p.m.

600. Saw President Kubitschek this evening for one hour and obtained assurance Fernando de Noronha matter will be brought to conclusion soonest (i.e., "within next few days") with qualification however that he may decide, on recommendation advisors, to submit project to Congress for approval, procedure which if undertaken he later admitted would lead to further and perhaps interminable delay.

My initial statement to President as follows: I informed him my visit pursuant urgent instructions take up matter of highest importance, namely protracted delay which my government has encountered in arranging for certain facilities in field of hemisphere defense collaboration, including Fernando de Noronha. Reminded President that when first spoke to him last July he expressed agreement in principle and directed discussions be undertaken with Foreign Office. I said it is only because Itamaraty[2] discussions unproductive that I again coming to him.

. . . .

At end of conversation President said he would try arrange meeting tonight with Foreign Minister and legal advisors preliminary to Cabinet discussion and assured me he aware both importance and urgency my representations and that I could confidently expect reply "within few days". Should War Minister return tonight from southern trip President would attempt unite Military Ministers and Foreign Minister and NSC in separate meetings this weekend. President (1) further declared he unwilling let matters dangle; (2) reiterated his sincere belief in US-Brazilian cooperation all along the line.

Comment follows next telegram.[3]

Briggs

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[1] Source: Department of State, Central Files, 732.5–MSP/12–1356. Secret; Niact.

[2] The Brazilian Foreign Office.

[3] Telegram 601 from Rio de Janeiro reads in part: "Recommend Kubitschek be given his requested 'few days' during which we can continue to press him (i.e., message from President)." (Department of State, Central Files, 732.5–MSP/12–1356)

In telegram 495 to Rio de Janeiro, December 14, the Department of State informed Briggs that at his suggestion the delay in reaching a facilities agreement had been brought to President Eisenhower's attention. At the President's authorization, the Department instructed Briggs to convey a personal message from Eisenhower to Kubitschek, urging the Brazilian President to "find means to assure that the construction of this essential facility will be allowed to begin without further delay so as not to imperil the schedule for testing the Intercontinental Ballistic Missiles." (*Ibid.*)

(Continued)

348. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, December 15, 1956—noon.

607. Re Embtel 606. There follows text of letter sent President Kubitschek this morning based on Deptel 495.

"Confirming our conversation this morning I have the honor to set forth hereafter the message to you from President Eisenhower dated yesterday evening:

" 'I have been informed of your conversation on the morning of December 13 with Ambassador Briggs, and also of the draft response of the Brazilian Government to the American Embassy note of October 5, 1956.[2]

" 'I wish you to know that I have been following the negotiations closely because of my very great personal interest in the guided missile program, which is of the highest priority in the race against time, seeking to develop weapons vital for the defense not only of the western hemisphere, but perhaps of the entire free world.

" 'Your personal attention to this urgent matter is most gratifying to me, as is your agreement that the United States shall have access to a station on Fernando de Noronha Island. I appreciate the real problems which such an installation may pose for the Brazilian Government.

. . . .

" 'I am confident that you will, in the fraternal and cooperative spirit which has always characterized relations between Brazil and the United States, find means to assure that the construction of these essential facilities will be allowed to begin without further delays, so as not to imperil the testing of inter-continental ballistic missiles.

" 'I send to you my warmest personal regards and good wishes, recalling with pleasure and satisfaction our meetings at Key West last January and Panama last July.'

"In connection with the foregoing message from President Eisenhower, I have been directed to call Your Excellency's attention to the fact that it is now contemplated that the Fernando de Noronha station will be operated by a private United States company, under

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(Continued)

In telegram 606 from Rio de Janeiro, December 15, Briggs reported that he had seen Kubitschek that morning and read to him the substance of the President's message, which the Ambassador believed had been most helpful in the present situation. (*Ibid.*, 732.5–MSP/12–1556) Briggs transmitted to the Department the text of the letter which he read to Kubitschek in telegram 607, *infra.*

[1] Source: Department of State, Central Files, 732.5–MSP/12–1156. Secret.

[2] This reply was transmitted to the Department in telegram 351 from Rio de Janeiro, October 5. (*Ibid.*, 732.5–MSP/10–556)

contract to the United States Air Force. Under that arrangement it is anticipated that there will probably be only one Air Force officer assigned to the Fernando de Noronha station after its completion, and should the Brazilian Government so desire, he can wear civilian clothes. The remainder of the American personnel will be approximately 50 civilian technicians employed by the contractor.

"As explained during our conversation this morning, my government hopes that it may be possible to conclude a 10-year agreement, subject to termination by either party after that initial period.

"Permit me to reiterate, Mr. President, the high appreciation of my government of the personal attention which you are giving to this important matter."

Briggs

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349. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio De Janeiro, December 18, 1956—5 p.m.

617. Re my telegram 613.[2] President Kubitschek invited me to his office this morning for post mortem his last week's efforts and preview things to come. He spoke with apparent and I may add engaging frankness to following effect:

His activities last week on our behalf included ten hours personal effort with special cabinet and NSC sessions. He said had to overcome very considerable opposition but text submitted to US yesterday improvement from US point of view over previous and represents best he can do. Even so Communists and others are likely to cause him plenty of trouble. Military insisted inclusion of Article 6 and President hopes we can now get on with that business and keep Brazilian military off his neck as well as ours. He mentioned but did not dwell on rivalry with Argentina; implying clearly he does not have in mind parity of treatment in military matériel as satisfactory to Brazil. (I am drafting separate telegram on this subject).[3]

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[1] Source: Department of State, Central Files, 732.5-MSP/12-1856. Secret; Priority.

[2] In telegram 613, December 17, Ambassador Briggs reported that the Brazilian Foreign Ministry had handed him that afternoon a final draft text of the proposed facilities agreement. He noted that it was an improvement over the draft previously handed to him by President Kubitschek on December 14. "It is also in my opinion," he added, "best we are likely to get and unless we act promptly opposition may still succeed in blocking whole arrangement." He continued with a discussion of the draft text, noting in particular article 6, in which the Brazilians proposed that the United States increase MDAP funds to Brazil in return for American use of the Fernando de Noronha site. (*Ibid.*, 732.5-MSP/12-1756) The text of the Brazilian note was transmitted to the Department in telegram 612 from Rio de Janeiro, December 17. (*Ibid.*)

However said primary purpose summoning me was for general round-up US-Brazilian collaboration.

As far as Kubitschek personally concerned he said that while he acknowledges and recognizes importance of continuing collaboration between Brazilian-US armed services (having in mind Brazil's strategic location, great geographic extent and tradition of military collaboration) it is closer and more effective economic collaboration that he has primarily on his mind—that is, arrangements discussed by his mission in Washington last July and subsequently formulated in joint EXIM Bank statement but still largely awaiting implementation, pending wheat operation (which as reported separate telegram today he promises expedite),[4] and Brazil's need for additional merchant vessels. President understands we have approximately 50 ships now in mothballs; he would like to buy 24 already mentioned by Peizoto in recent conversation with Rubottom, plus 6 more of different types. He indicated request for ships urgent. (Department's A–159[5] just received, after conversation with President.)

Regarding all of these requirements President said Brazil desires to depend primarily on US and he implied success or failure his administration would be in measure we are able to aid him. Finally he said that along with Brazil's Fernando Noronha note he has directed Foreign Minister Macedo Soares to give US overall statement covering Brazil's needs, hence would not go into further detail now. (This is new idea; Foreign Minister indicated yesterday, as reported Embtel 613, that impending communication would be limited to Brazilian defense requirements.)

. . . .

3. As indicated above future military collaboration subject of separate telegram.

Briggs

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[3] Telegram 619, *infra.*

[4] Telegram 618 from Rio de Janeiro, December 18. (Department of State, Central Files, 411.3241/12–1856)

[5] Airgram A–159, December 12, reported on the current status of the Brazilian Government's interest in acquiring additional vessels from the U.S. Reserve Fleet. (*Ibid.*, 932.739/11–156)

350. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, December 18, 1956—6 p.m.

619. Reference: Embtel 613[2] and 617,[3] together with previous recommendations for reassessment Brazil-US military collaboration.

Current dissatisfaction Brazilian Military rests on two grounds (1) US deliveries too small and long delayed and (2) US failure acknowledge and treat Brazil as more important than any other country Latin America. This message addressed primarily to second allegation.

Argument that Brazil is our "best and most valuable friend and ally" based on following premises: (1) Tremendously large country, nearly one-half of South America, rapidly growing population now 60 million, tremendous natural resources and expanding economy—all adding up to fact that Brazil is only Latin country likely at early date become world power; (2) Strategic importance of Brazil under present world conditions, manifested in World War II and now underlined by our interest in Fernando Noronha facilities; (3) Brazil our traditional friend and ally, standing by US in two world wars when chips were down. (While this theme played locally is monotonously repetitive it is nevertheless eloquently supported by record.)

I believe that many of our difficulties and headaches in relations with Brazil would be resolved if we were to adopt as policy thesis that Brazil is our "first friend and ally" among American Republics. I appreciate suggestion raises practical question of implementation in terms military collaboration and assistance. We can probably demonstrate that Brazil has already received more military assistance than any other Latin American country. It can also be maintained, however, that extent of our assistance not commensurate with relative importance of Brazil vis-à-vis these other countries, its importance to US strategically and otherwise in the present context of world affairs, nor adequate to enable Brazil meet hemispheric defense commitments undertaken at our insistent urging (re latter point reference 1952 MDA agreement and related secret agreement covering Brazilian commitments).[4]

In present situation it is not convincing to Brazilian military to cite dollar cost figures of equipment furnished. What is convincing in their eyes is physical end product available to them. (For example, decision to offer Brazilian Navy 2 destroyers, 2 submarines and 3 years from now 1 minesweeper, in comparison with 2 destroyers and 2 submarines for Chile, is most unlikely favorably impress Brazilian Navy.)

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[1] Source: Department of State, Central Files, 732.5-MSP/12-1856. Secret.

[2] See footnote 2, *supra*.

[3] *Supra*.

[4] The agreement was signed at Rio de Janeiro, March 15, 1952, and entered into force, May 19, 1953; for text, see TIAS 2776 or 4 UST 170.

I recognize that adoption policy based on "first friend and ally" concept may perhaps create initial difficulties with other neighbors, notably Argentina. However, I believe time has come when we should recognize reality of Brazil's emergence as dominant Latin American power. While Department will have better estimate than possible here, my experience is that Latinos know how to accept fait accompli, especially when it has solid basis.

Since foregoing issue will inevitably arise in connection with impending review our military relations with Brazil, I suggest basic policy decision should precede study of specific Brazilian requests.

Acceptance "Brazil first friend and ally" thesis in military field presupposes same thing in economic collaboration but there de facto Brazil has no valid complaint in contrast treatment other Republics, even though Brazil now seeking additional US assistance. Ditto political field.

Briggs

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351. Telegram From the Secretary of State to the Embassy in Brazil[1]

Washington, December 22, 1956—6:03 p.m.

512. You authorized (Embtel 612)[2] acknowledge receipt Brazilian note December 17 as follows:

"The Government of the United States of America, conscious of the obligations which devolve upon it and which extend equally to the Government of the United States of Brazil, with reference to the common defense of the two countries and the defense of the continent, by reason of diplomatic undertakings previously concluded, especially the Inter-American Treaty of Reciprocal Assistance signed in Rio de Janeiro on September 2, 1947, as reaffirmed by the Military Assistance Agreement concluded in this capital by the two governments on March 15, 1952, is prepared to conclude the following agreement, which follows in particular the principles stated in Article I, Paragraph 1 of the Military Assistance Agreement mentioned: (*Note:* Minor changes in Preamble are necessary since the Brazilian preamble is so worded as to mean that in the MDAP, which is an executive agreement, the U.S. assumed obligations which would only be assumed through a treaty.)

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[1] Source: Department of State, Central Files, 732.5–MSP/12–1756. Confidential. Drafted by Siracusa, Bernbaum, and Sayre; cleared in draft with Phleger and Louis E. Frechtling of the Office of the Special Assistant to the Under Secretary for Mutual Security Affairs, in substance with Gray, and in final form by Murphy and Rubottom. Approved by Hoover.

[2] See footnote 2, Document 349.

"(1) The Governments of Brazil and the United States of America, with a view to the defense of Brazilian territory and of the American continent, have agreed to the construction on the Island of Fernando de Noronha of installations particularly of an electronic character connected with the development of guided missiles;

"(2) The Government of Brazil authorizes these installations to be constructed by United States personnel assisted by Brazilian personnel;

"(3) It is agreed that said installations shall be under the command of a Brazilian officer and the Brazilian national flag exclusively will continue to fly over the Island of Fernando de Noronha;

"(4) It is understood that the operation of the technical facilities at the said installations shall be in charge of the United States personnel who will be assisted by Brazilian technicians and military;

"(5) The Government of the United States of America agrees that United States personnel shall be gradually replaced by Brazilian personnel in accordance with conditions to be determined by common agreement;

"(6) The Goverment of the United States of America, in view of the Brazilian Government's preoccupation that greater defense responsibilities, and therefore a need for additional technical assistance and material resources, may result from the establishment of the Missile Tracking Station on Brazilian territory, agrees to discuss with the Government of Brazil the extent of such added requirements as may be involved during the life of this agreement. (*Note:* We regard interpretation of Article 6 along above lines as essential to avoid future misunderstandings and the granting to Brazil of a virtual blank check against the U.S. for military equipment.)

"(7) The Government of the United States of America agrees that the construction and fixed improvements made on the Island of Fernando de Noronha in connection with the technical installations to which this agreement refers shall become the property of Brazil without any indemnification, upon termination of this agreement or upon termination of any extension.

"(8) If this is satisfactory to the Brazilian Government, it is understood that Your Excellency's note of December 17, and this note in reply thereto, shall constitute an agreement between our two Governments which shall remain in force for a period of five years from this date and may be extended only under the conditions and for the length of time to be determined by common agreement. In the event of an extension, the agreement may be denounced by either of the two Governments with prior notice of one year."

Department understands these changes not in accordance your recommendation but believes after consultation with Department of Defense that there is no alternative.

Dulles

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352. Telegram From the Acting Secretary of State to the Embassy in Brazil[1]

Washington, December 31, 1956—7:02 p.m.

531. In conversation following signing today PL 480 agreement Bernbaum stressed to Peixoto general US Government unhappiness over progressive indications Brazilian efforts take advantage Fernando de Noronha station for bargaining purposes on military equipment and economic assistance. Counterproductive aspects such action on United States opinion and in strengthening position of those in United States advocating quid pro quo for economic and military assistance rendered Brazil emphasized. Advocacy such policy had previously carried little weight owing sincere belief highest US Government circles that our relations with Brazil and other Latin American countries would best be served by avoidance bargaining techniques and emphasis on merit individual problems involved. This clearly illustrated by large volume of loans already extended to Brazil by fact that recent $150 million line of credit and PL 480 agreement signed today had been authorized without any attempt to utilize them as bargaining instruments for guided missiles station. Although Brazilian military unhappy over our military performance, equipment already granted without any strings far exceeded that allocated other countries in Latin America.

Bernbaum added Department greatly concerned over indications that Fernando de Noronha agreement may be sold to Brazilian public as basis for great concessions from US in economic and military fields thereby giving rise to high hopes and danger that their frustration could place Brazilian Government and its relations with US in an embarrassing position. US considered its economic record a good one not justifying any attempts for an apparently proposed new program. Defense ready to look into military responsibilities accruing from establishment of guided missile station on Fernando de Noronha but had no intention of permitting this to constitute basis for a commitment to grant extensive quantities of military equipment not related to base. Readiness of Defense to discuss general question of military equipment and resolution 18 had already been made known in our note of October 5.

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[1] Source: Department of State, Central Files, 732.5–MSP/12–3156. Secret. Drafted by and approved by Bernbaum; cleared with Colonel Thomas B. Hanford of ISA.

Peixoto stated that he would communicate foregoing by telephone to President Kubitschek on January 2 when latter will have returned to Rio. He readily conceded validity of points regarding economic assistance and expressed opinion that emphasis on military equipment was due to demands of armed services and to President Kubitschek's desire to convince them of desirability of continued cooperation with US. He referred to growing groundswell of Communist and nationalist opposition to US both within and outside armed services and stated it was Kubitschek's as well as his earnest desire to frustrate anti-American propaganda by demonstrating value and necessity for continued cooperation with US.

Statement to Peixoto may be repeated Brazilians at Ambassador's discretion. Additional guidance response Embtels 619[2] and 652[3] being held up pending resolution guided missiles station.

Murphy

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[2] Document 350.

[3] In telegram 652, December 30, Ambassador Briggs reviewed the current negotiations over the facilities agreement, emphasizing again that he believed the key to reaching a settlement revolved around the question of increased U.S. aid to Brazil, both military and economic. He concluded by suggesting that the United States would shortly "have to make some important decisions relevant to our future relations with Brazil, including extent of Brazilian performance we must require in order that our collaboration, especially in economic field, can be effective." (Department of State, Central Files, 732.5–MSP/12–3056)

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353. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, January 2, 1957—7 p.m.

656. Re Deptel 531.[2] Since I have heard nothing further from Foreign Office subsequent to December 29 conversation reported Embtel 652[3] and since I share Department's growing concern as

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[1] Source: Department of State, Central Files, 732.5–MSP/1–257. Secret; Priority.

[2] *Supra.*

[3] See footnote 3, *supra.*

expressed December 31 to Ambassador Peixoto by Bernbaum, I am this afternoon sending following letter marked "personal and confidential" to Secretary General Moura:[4]

"There are certain aspects of the delay in reaching agreement on Fernando de Noronha which are giving me such increasing concern that I know you will not misunderstand my writing you this personal note. Washington has observed from various newspaper stories from Rio de Janeiro indications that an effort is being made to take advantage of Fernando de Noronha for bargaining purposes on economic collaboration and military equipment. The counterproductive results of such a situation on American opinion and in strengthening the position of those in the US advocating a quid pro quo for economic and military assistance rendered Brazil, will be apparent to you. Advocacy of a quid pro quo policy has previously carried little weight in Washington because of the sincere belief entertained in American Government circles that our relations with Brazil will be served by an avoidance of bargaining techniques and by emphasis on the merit of the various projects successively studied. This has clearly been illustrated by the volume of loans already extended to Brazil and by the fact that the recent $150,000,000 Export-Import Bank line of credit and the wheat agreement signed on December 31 were authorized by the American Government without any attempt to utilize them as bargaining instruments, for example, for a guided missiles tracking station.

"Washington is also concerned over indications in the press that the proposed Fernando de Noronha agreement may be represented to the Brazilian public as the basis for widespread concessions from the US in economic and military fields, thereby giving rise to exaggerated or unwarranted hopes and a danger that their subsequent frustration could place the Brazilian Government and its relations with the US in a difficult or embarrassing position.

"In that connection, there is the matter of a list, to which the Minister and you have referred in conversation on several occasions, as representing certain Brazilian estimates or proposals. You indicated such a list might be handed me on the date when our exchange of notes on Fernando de Noronha is effected. We shall of course be pleased to receive and give immediate study to any document which your government may desire to present, but I assume it is not proposed to give publicity to any such list or document, since to do so might create the erroneous impression that the American Government had made commitments as a part of the Fernando de Noronha agreement beyond those set forth in the agreement itself. Such an impression I am sure you will agree might be highly misleading and undesirable.

"In Washington our record of economic collaboration with Brazil is considered a good one, not justifying attempts for a 'new program'. On the military side, our defense authorities are prepared to look into the military responsibilities accruing from the establishment of a missiles tracking station on Fernando de Noronha, but could hardly accept the proposition that this constitutes a basis for a commitment to grant extensive quantities of military equipment unrelated to the base. The readiness of the Defense Department to discuss the broader question of general military collaboration has already been made known, as you are aware, through the Embassy's note of October 5, 1956, paragraph 3.

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[4] Auro Moura Andrade, Secretary General of the Brazilian Foreign Office.

"I feel that it may be useful to you to have these observations in connection with our present efforts to conclude the Fernando de Noronha agreement at the earliest possible date."

Briggs

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354. National Intelligence Estimate[1]

NIE 93–57 *Washington, January 8, 1957.*

PROBABLE DEVELOPMENTS IN BRAZIL[2]

The Problem

To assess the character of the present regime, and to estimate its probable stability and probable policies over the next two years.

Conclusions

1. The Kubitschek administration, which came into office a year ago with only a third of the popular vote and against a background of extreme political tension, is trying to restore harmony in Brazil by following a middle-of-the-road course. However, a combination of army, labor (led by Vice-President Goulart), ultranationalistic, and Communist elements is attempting to organize an extremist-oriented regime around War Minister Lott. The majority of the air force and navy, a portion of the army, and rightist civilian elements oppose the present administration and particularly desire to remove Lott from a position of power. (*Paras. 8–12*)

2. This tense atmosphere is a reflection of President Kubitschek's inability to consolidate his political position. Despite serious handicaps, however, the administration is able to take positive action

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[1] Source: Department of State, INR–NIE Files. Secret.

[2] According to a note on the cover sheet, the following intelligence organizations participated in the preparation of this estimate: the CIA and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff. All members of the IAC concurred with the estimate on January 8 with the exception of the representatives of the AEC and the FBI, who abstained on the grounds that the subject was outside their jurisdiction.

on a broad range of economic and foreign policy matters. (*Paras. 13–16*)

3. Kubitschek will probably be able to stay in office over the next two years. However, it is unlikely that he will be able to build up disciplined political support in congress or to curb effectively the army's political influence. (*Paras. 25–28*)

4. The Kubitschek administration has serious economic problems. Although the government will probably continue to make moderate progress in the development of basic services, the rate of economic growth is unlikely to increase appreciably. Inflation will almost certainly continue, but will probably not exceed the high rate of previous years. (*Paras. 18–21, 30–31*)

5. The Kubitschek administration is attempting to continue Brazil's traditional pro-US foreign policy. It is cooperating with the US on major international political issues. However, on matters of economic and military cooperation, it generally has to defer to congress and the armed forces, both of which are highly sensitive to any development which appears to infringe upon Brazilian sovereignty. This situation will probably continue. (*Paras. 22–24, 32–33*)

6. Although the Communist Party is outlawed, the Communist movement is well-organized and well-financed. The Communists are able to cooperate effectively with the non-Communist ultranationalists in both congress and the army in exploiting the already highly developed nationalistic sentiments of the population. However, they do not by themselves possess sufficient strength to constitute a serious threat to the Kubitschek regime. (*Paras. 17, 29*)

Discussion

7. The situation in Brazil over the next few years will affect important US strategic, political, and economic interests. At stake are military base requirements, strategic raw materials, cooperation on international issues, and levels of trade and investment. Brazil's attitudes with respect to these US interests will depend upon the relative influence of various competing domestic groups, upon economic developments, and upon US policy toward Brazil.

The Political Problem

8. The Kubitschek administration, which came into office a year ago with only a third of the popular vote and against a background of extreme political tension, is attempting to restore political harmony to Brazil by following a middle-of-the-road course.[3] The Presi-

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[3] See Appendix A for political background. [Footnote in the source text. This appendix is not printed.]

dent, a member of the moderate Social Democratic Party (PSD), is attempting to forge a working relationship with a divided congress and a generally uncooperative and in part hostile military organization. He is also working to curb the ultranationalists and the Communists.

9. However, a combination of army, labor, ultranationalist, and Communist elements is attempting to undermine Kubitschek's position by organizing around General Henrique Texeira Lott a political movement of extremist orientation. Lott, soon after becoming War Minister, revealed himself as a constitutionalist with no pronounced political convictions, but his recent statements and activities suggest that he is increasingly disposed toward the labor-ultranationalist position. Vice-President Joao Goulart, the ambitious head of the Brazilian Labor Party (PTB) and generally considered as Vargas' political heir, is establishing closer relations with Lott in an effort to enhance his own opportunities. Labor, which ordinarily plays a passive political role, would probably respond to Goulart's leadership in the event of a political crisis.

10. It is largely the weakness of the President's political position and the increasing boldness and outspokenness of the civilian and military opposition that have encouraged the faction of the army led by Lott to expand its political role.[4] Lott's preventive coup of November 1955, which ensured the inauguration of Kubitschek, split the military, and resulted in a pro-Kubitschek army-civilian alignment opposed by predominantly conservative armed forces-civilian elements. Since then, the army has provided protection against anti-administration groups in the armed forces, but it has also intervened in politics by insisting upon curbs in rightist opposition activities and advocating nationalistic policies with respect to development of Brazil's natural resources.

11. Lott's political activities and the increasing influence of the army in Brazilian politics have intensified the bitter friction already existing among the armed forces. The main outlines of the various divergent military attitudes are: (a) the majority of the air force and navy and a portion of the army are hostile to the present regime in general and to Lott in particular; (b) a small but highly influential army group is backing Lott although many of this group probably look upon Goulart as their real political leader; and (c) a sizable military group, consisting mainly of army and police, strongly supports the present administration.

12. Indications that Lott may be inclined to sponsor a labor-ultranationalist government are also causing uneasiness among civil-

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[4] The capabilities of the armed forces are discussed in Appendix B. [Footnote in the source text. This appendix is not printed.]

ian conservatives who are concerned for the stability of established institutions and fearful of a leftist political trend. They are publicly demanding that both Lott and Kubitschek be replaced. President Kubitschek is endeavoring to restore political calm by curbing the activities of pro- and anti-Lott political organizations.

13. This tense political atmosphere is a reflection of President Kubitschek's inability, after one year in office, to consolidate his political position. He is seriously handicapped in his efforts to carry out his programs by the lack of a disciplined political organization. The so-called "administration bloc,"[5] which holds over two-thirds of the seats in both houses of congress, does not provide the President with sustained support. The various parties of the bloc tend to unite for the purposes of organizing congress and preventing serious opposition blows to the administration's prestige, but they frequently fail to respond to the administration's efforts to promote its program in congress. Within the administration bloc, the Brazilian Labor Party (PTB), the Social Progressive Party (PSP), and the Republican Party (PR), until recently formed a separate "minority" grouping. This arrangement permitted leaders of the "minority" parties to further partisan political objectives by enunciating their own pro-labor, reformist, or highly nationalistic platforms, often in opposition to Kubitschek's program. While the "minority" disbanded in November 1956, it may still operate on an ad hoc basis on specific issues. By aligning itself with the regular opposition, this group can defeat any measure the administration proposes.

14. Kubitschek is further handicapped by the growing schism within his own (PSD) party. Here the struggle for power continues between the established moderate leadership of the party and a

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[5] Party Strength in Brazilian Legislature

Party	Senate	Chamber of Deputies
Administration Bloc		
Social Democratic Party (PSD)	23	116
Brazilian Labor Party (PTB)	15	62
Social Progressive Party (PSP)	4	31
Republican Party (PR)	4	17
Others	1	10
	47	236
Opposition Bloc		
National Democratic Union (UDN)	12	73
Liberator Party	3	10
Others	1	7
	16	90
	63	326

[Footnote in the source text.]

"young wing," led by chamber majority leader Tarcilo Vieira de Melo, which believes that the PSD must build a broader, lower-class base if it is to remain in power. Accordingly, the young wing has tended to vote with the "minority" on issues that directly affect the lower income groups, and it further embarrasses the administration by generally adopting ultranationalistic positions.

15. The opposition, dominated by the National Democratic Union (UDN), takes full advantage of the divisions and weaknesses in the administration bloc. It generally employs tactics designed to split the administration parties or force the government to adopt a politically unpopular position. However, the moderate-conservative UDN cooperates with Kubitschek and the PSD moderates to forestall labor-leftist advances. The PSD and UDN recently joined forces to block a PTB–PSP-sponsored effort to extend urban labor legislation to rural workers.

16. Despite the situation described above, President Kubitschek is able to take some positive action. He has secured from congress new tax laws to cover, in part, sharply increased government expenditures. Furthermore, by virtue of special authority vested in the executive, Kubitschek is able to operate independently on a broad range of economic matters, including regulation of exchange rates, restriction of bank credits, encouragement of foreign private enterprise in some fields, and negotiation of development loans.

17. Although the Communist Party is outlawed, the Communist movement is well-organized and well-financed. Through its infiltration of various agencies of the government and through its influential press, it is able to cooperate effectively with the non-Communist ultranationalists in both congress and the army in exploiting the already highly developed nationalistic sentiments of the population. However, the Communists by themselves do not constitute a serious threat to the Kubitschek regime. In the 1955 Presidential campaign, they threw the entire weight of their propaganda machine behind the Kubitschek–Goulart ticket, and subsequently they claimed credit for the election victory. However, in view of the administration's refusal to extend political amnesty to them, they are forced to operate on the fringes of the political scene. While the Communists follow a firm "united front" policy, they appear to assume an ambivalent attitude toward the present regime, opposing its pro-US gestures while applauding its efforts to curb the rightist opposition.[6]

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[6] See Appendix C for additional information on the Communists. [Footnote in the source text. This appendix is not printed.]

The Economic Problem[7]

18. Kubitschek's political problem is aggravated by Brazil's serious economic difficulties. The administration's basic economic problem is to maintain a satisfactory rate of economic growth and development. Although Brazil has experienced rapid economic growth since World War II, the rate of growth has slackened over the past two years.[8] Development is being handicapped by distortions and lack of balance in the domestic economy resulting from divergencies in the rate of growth among the various sectors. Brazil's rapid industrial growth has not been accompanied by adequate development of transportation and power and of mining and agricultural production for export. Kubitschek is attempting to further a development program designed to rectify these maladjustments. His primary effort is being devoted to improvement of power and transport facilities. Recently, the Eximbank agreed to consider loans up to $100 million to Brazilian railroads conditioned on consolidation of the rail network. The Eximbank also provided loans of over $60 million for other development purposes. However, since these loans are far from sufficient for meeting Brazil's growing development needs in the field of basic services, and since adequate domestic financing for such projects is unavailable, the administration is seeking additional foreign assistance.

19. Control of inflation is the administration's most pressing immediate problem. Brazil's post World War II economic growth has occurred under conditions of uninterrupted inflation. The annual average increase in the cost of living for the years 1951–1955 was approximately 22 percent, but for the 12-month period ending September 1956, it rose to 30 percent. This rise partly reflects the administration's political difficulties. Major factors contributing to the current inflation include: (a) a large budget deficit,[9] (b) a rapid

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[7] See Appendix D for information on Brazil's international economic ties. [Footnote in the source text. This appendix is not printed.]

[8] In the 1946–1955 period, the gross national product (GNP calculated on the basis of 1950 cruzeiro prices converted to US dollars at 18.5 to 1) increased from $11.2 billion to $17.7 billion, the per capita product from $237 to $303. This represented an annual expansion rate of 6.4 percent in the GNP and 3.1 percent per capita. During this same decade gross investment amounted to about 16 percent of the GNP annually. However, the rate of growth has slackened somewhat over the past two years. In 1955, the GNP growth rate slowed to 3.9 percent, the per capita growth rate to 2 percent, and the ratio of gross investment to GNP to 14.6 percent. Though the 1956 figures are not yet in, they probably are not below those for 1955. [Footnote in the source text.]

[9] At the end of the first nine months of 1956, the deficit was some 13 billion cruzeiros on total expenditures of 60 billion cruzeiros. This deficit was somewhat less than the administration anticipated at the beginning of 1956. [Footnote in the source text.]

expansion in the money supply (11 percent during the period January–June 1956), largely due to Central Bank financing of the budgetary deficit, (c) liberal pay increases for the armed forces and for civilian government personnel and an increase of over 50 percent in the legal minimum wage in August 1956, and (d) a rapid expansion of commercial and consumer credit. The administration is now attempting to hold the line on inflation by reducing administrative expenditures, tightening credit, improving collection of taxes, and increasing tax rates. By such measures, inflation is being moderated but by no means corrected.

20. In the past, Brazil's insistence on maintaining a high rate of industrialization, even at the cost of severe inflation, has contributed heavily to recurrent foreign exchange shortages. Export earnings have been generally inadequate to meet the growing demand for imports, despite the efforts of successive administrations to curb nonessential imports. In 1953 and 1954 Brazil averted foreign exchange crises only by borrowing $500 million from government and private banking institutions in the US. In 1955, as a result of the imposition of tight import restrictions and the resurgence of world demand for coffee, Brazil was able to show a favorable balance of payments of $100 million, and under the Kubitschek administration, the exchange position is continuing to show improvement. However, this favorable trend is threatened by the approaching maturity of a large volume of outstanding foreign loans. By the end of 1960, Brazil is scheduled to repay $782 million out of a total of $1,074 million in outstanding loans and credits. The administration sought to obtain long-term refunding of its medium-term obligations with the Eximbank. However, the Eximbank declined to consider such refunding, but agreed to a postponement of repayments whenever Brazil's dollar availabilities deteriorate materially. For the moment, Brazil's exchange position is relatively favorable.

21. Increasingly heavy fuel imports also threaten the nation's exchange position. Over one-third of current dollar receipts are allocated to petroleum imports, and requirements are growing rapidly.[10] Any increases in crude oil prices or transport costs resulting from the Suez crisis will result in an additional drain on Brazil's dollar receipts. Finally, an ever-present threat to the Brazilian econo-

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[10] The advantages of foreign private development of domestic petroleum resources has long been recognized by many prominent Brazilians, in view of the lack of good coal reserves and insufficiently developed hydroelectric resources. In 1953, however, extreme nationalists and Communists spearheaded passage of legislation establishing a government petroleum monopoly (Petrobras) and excluding foreign capital, and they have since prevented modification of the legislation by succeeding administrations. Petrobras has ambitious plans for expansion of domestic petroleum production and within four years expects to satisfy half of the national requirements, but it will almost certainly be unable to do so. [Footnote in the source text.]

my is a possible sharp fall in the price of coffee or a serious crop failure, for coffee exports now account for two-thirds of Brazil's foreign exchange earnings and 80 percent of its dollar earnings. Present coffee shipments are moving at a higher rate than in 1954 and 1955, and prices have risen somewhat above 1955 levels.[11]

Brazil and the US

22. The Kubitschek administration, keenly aware of the advantages to be derived from cooperation with the US in political, economic, and military matters, is attempting to continue Brazil's traditional pro-US foreign policy. It is most successful with respect to cooperation on major international political issues largely because these issues do not involve any question of Brazil's sovereignty or appreciably affect the domestic scene. Thus far it has been able to resist leftist-nationalist-Communist pressures to detach Brazil from its close ties with the US and to resume or establish diplomatic relations with the USSR (which Brazil severed in 1947) and other members of the Sino-Soviet Bloc.[12] Recently it was able to overcome certain military and congressional reservations and push through authorization for Brazil to contribute troops to the UN forces in the Suez Canal area.

23. The President is far less successful in the realm of economic and military cooperation. In these matters, he must generally defer to the army and congress, both of which are highly sensitive to any developments which appear to infringe upon Brazilian sovereignty. Their ultranationalistic influence is largely responsible for the recent Brazilian National Security Council recommendation that Brazil withdraw from its atomic minerals prospecting and thorium sales agreements with the US and set up a government monopoly on sales.[13] Their influence is also largely responsible for the President's inability to alter the government petroleum monopoly so as to permit foreign private capital to develop the nation's oil resources.

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[11] Average Coffee Prices Table: (Santos 4's)
July 1954 - 88¢
February 1955 - 54¢
February 1956 - 58¢
December 1956 - 60¢
[Footnote in the source text.]

[12] Brazil maintains diplomatic relations with only two members of the Bloc—Poland and Czechoslovakia. [Footnote in the source text.]

[13] Brazil's raw material potential could be an asset in the atomic energy field. Several uranium deposits are known to exist. However, due to inability, in terms of equipment and personnel, to conduct effective geological surveys, no firm estimate of total uranium reserves can be made. Brazil is one of the two major world resources of monazite (thorium source) and of beryl, and Brazil's known resources of zirconium are substantial. [Footnote in the source text.]

Kubitschek favors the expansion of foreign private investment in other sectors of the Brazilian economy, but there is strong opposition in congress to such a policy. Some business interests support the current nationalist campaign because they fear competition from foreign enterprises.

24. In matters dealing with military cooperation with the US, the President often finds himself at odds with the armed forces and frequently is forced to accept their views. In the protracted negotiations over military base requirements,[14] the Brazilian military is utilizing its position of influence in the government in order to obtain maximum amounts of equipment from the US. Both the administration and the armed forces are attempting to by-pass congress in these negotiations because of fears the latter would reject any new military agreement. Accordingly the current negotiations are being handled under the existing 1952 Brazil–US MDAP agreement.

Outlook

25. So long as the power struggle among the various military and civilian elements continues, the possibility is always present that the Brazilian political situation may suddenly change, either as a result of a military coup, a new coalition of competing civilian elements, or a notable increase in the administration's influence over the armed forces and congress.

26. The persistence of the split in the military organization makes it improbable that the armed forces will be able to take concerted political action, but it is possible that a coup might be attempted by one of the military factions. If General Lott, with backing of labor-nationalist elements, should attempt to seize power, or if the air force, the navy, and the anti-Lott faction of the army, with the backing of conservative civilian elements, were to attempt a coup, we believe the chances of success in either case would be less than even. Lott's withdrawal or removal from the administration would tend to heal the breach in the armed forces and reduce the possibility of military intervention over the short run.

27. The 1958 state and congressional election campaigns will subject the present government to additional political strain. Competition for influence and power by parties within the "administration bloc" is likely to reduce further the political viability of the regime and to increase the threat of military intervention.

28. Nevertheless, we believe that the delicate balance that exists among the competing elements and the great risks involved for any

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[14] See map following page 7. [Footnote in the source text. The map is not printed.]

element that attempts to upset this balance make it likely that the present situation of political tension and instability will continue unresolved. Kubitschek will probably be able to stay in office over the next two years. However, the great political handicaps under which he labors are likely to continue. It is unlikely that he will be able to build up disciplined political support in congress or to curb effectively the army's political influence.

29. The Communists will probably continue to display an ambivalent, opportunistic attitude toward the present regime. The party will continue to exploit social discontent and anti-US nationalist tendencies. It has no prospect of gaining direct control of Brazil by electoral means or by force within the foreseeable future. However, the persistence of political tension and instability in Brazil will enhance Communist opportunities to expand their influence.

30. Inasmuch as Brazil is so highly sensitive to and dependent upon a number of virtually unpredictable international economic developments, no firm estimate of domestic economic developments can be made. A sharp upswing in oil prices and transport costs, resulting from the Suez crisis, could reverse Brazil's currently favorable foreign exchange position. A sharp price decline in coffee would quickly result in serious economic maladjustments. In this latter situation the Kubitschek administration might require outside assistance in order to survive.

31. Assuming no severe adverse economic shocks induced from the outside, the government will probably continue to make progress in the development of basic services, particularly transportation and power. However, the rate of economic growth is unlikely to increase appreciably over the next two years. Inflation will almost certainly persist, but will probably not exceed the high rate of previous years.

32. The present administration will almost certainly continue to support the US on major political issues between the US and the Soviet Bloc and will cooperate with the US on most important political issues in Hemisphere affairs. However, the persistence of ultranationalistic influences in congress and the armed forces will continue to impede certain types of foreign investment. There may be some moderation of the recent nationalistic trend in the atomic energy field, but the government's petroleum monopoly will almost certainly be preserved.

33. Brazil is likely to agree to grant the major portion of US base requirements, but only after exhausting every effort to obtain maximum material benefits. The base agreements, if concluded, will probably be subjected to a concerted Communist-nationalist attack, but we believe the Kubitschek administration, with army backing, would be able to weather such an attack.

355. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, January 19, 1957—3 p.m.

726. As result of combination pressures . . . and in face mounting excitement in press and otherwise over Fernando de Noronha, Kubitschek has finally jettisoned his paragraph 6 (Embtels 686[2] and 696[3]) calling for US cooperation to accelerate realization of economic and military programs. Foreign Minister summoned me early this morning . . . and said Brazil now prepared accept following English version:

"Paragraph 6. Government of USA, recognizing that GOB considers that establishment of missile tracking station on Island Fernando de Noronha implies greater economic and military responsibilities for Brazil, and therefore necessity of increased technical and other assistance, agrees to undertake with Brazilian Government the immediate review of the extent of the requirements that may be involved." (This text is that quoted Embtel 652[4] with modification proposed by Deptel 530,[5] on which basis approved by Department and Brazilians so informed.)

Macedo Soares went on to say that because of critical situation which has developed locally over this issue he expected clear above text with President and advisors Monday morning and hoped exchange notes that afternoon.

With reservation that few things in Brazil seem to be in the bag until neck thereof padlocked and sealed, I recommend we accept foregoing language even though if we had additional weeks we could probably improve upon it. Because of political turmoil over this issue time now really is of essence. Furthermore we have made our main point and paragraph 6 commitment limited to review of what Brazil considers added responsibilities may be. . . .

Full text follows.[6]

Briggs

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[1] Source: Department of State, Central Files, 732.5–MSP/1–1957. Secret; Niact.

[2] Dated January 11, not printed. (*Ibid.*, 732.5–MSP/1–1157)

[3] Dated January 13, not printed. (*Ibid.*, 732.5–MSP/1–1357)

[4] See footnote 3, Document 352.

[5] Dated December 31, not printed. (Department of State, Central Files, 732.5–MSP/12–3056)

[6] Transmitted to the Department in telegram 727 from Rio de Janeiro, January 19. (*Ibid.*, 732.5–MSP/1–1957)

356. Editorial Note

On January 21, 1957, Ambassador Briggs and Brazilian Minister for Foreign Affairs Macedo Soares exchanged notes at Rio de Janeiro regarding an agreement for the establishment of a guided missiles facility on the island of Fernando de Noronha. The agreement entered into force on the same date. For text, see 8 UST 87 or Department of State *Bulletin,* February 25, 1957, pages 316–317. Ambassador Briggs reported the signing ceremony to the Department in telegram 738 from Rio de Janeiro, January 21. (Department of State, Central Files, 732.5–MSP/1–2157)

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357. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Under Secretary of State (Hoover)[1]

Washington, January 23, 1957.

SUBJECT

Circular 175:[2] Army Communication Facility Agreement with Brazil.

On July 2 you authorized negotiations with Brazil to obtain military rights including a guided missile tracking station, an Army communications facility, three LORAN stations, and operating rights at three Brazilian airbases. A Guided Missile Station Agreement was concluded on January 21 pursuant to your authorization of December 22. Defense now desires to negotiate an agreement for the Army Communications Facility at Maceio and has requested the Department to negotiate the Agreement appearing in the attached telegram. The draft Agreement is identical with the Guided Missile Station Agreement except for the deletion of Article 6 and minor changes required to convert the agreement to one for an Army Communications Facility. Article 6 was deleted because it involves a commitment on the part of the United States to discuss with Brazil increased military responsibilities Brazil considers it has assumed by granting use of Brazilian territory. Since the commitment has been made in the Guided Missile Agreement, it should not be necessary to repeat it in this Agreement.

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[1] Source: Department of State, Central Files, 711.56322/1–2357. Confidential. Drafted by Sayre; concurred in by Brigadier General James K. Wilson, Jr. of Defense, Murphy, and Phleger.

[2] Circular 175, December 13, 1955, concerned the proper exercise of the treaty and executive agreement-making power of the United States, as well as the approval of texts of treaties and the making of arrangements for signature. It is in a file retained by the Records Management and Regulations Division of the Bureau of Personnel, Department of State.

Recommendation:

That you sign the attached telegram authorizing Ambassador Briggs to negotiate for an Army Communications Facility.[3]

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[3] Hoover approved the draft telegram and it was transmitted to the Embassy on January 26 as telegram 622. It included a draft agreement for the proposed Maceio communication facility almost identical to the Guided Missiles Agreement. (Department of State, Central Files, 732.5-MSP/1-557)

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358. Letter From the Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, January 24, 1957.

DEAR GORDON: Our Ambassador to Brazil concluded on January 21 an Agreement with the Brazilian Government which will permit the Department of the Air Force to proceed with the construction and operation of a guided missile station on the Island of Fernando de Noronha. During the negotiation of this Agreement the Brazilian Government made clear that it is dissatisfied with the grant military assistance that the United States has provided and that it wants a substantial increase in such assistance to assist Brazil in carrying out commitments which it made to the United States to participate in the defense of the Hemisphere. This became the key issue in the negotiations. Although we successfully resisted making any commitment to provide additional military equipment, we did commit the United States to undertake immediately with the Brazilian Government an examination of the extent of the increased responsibilities which Brazil considered it assumed by concluding the Agreement. Our Ambassador informed the Brazilian Government on January 21 that the United States would welcome a meeting at an early date to commence this examination.

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[1] Source: Department of State, Central Files, 732.5-MSP/1-2457. Secret. Drafted by Sayre; cleared with ARA, OSA, and U/MSA.

It is of utmost importance that we take prompt and effective steps to assuage the strong feelings that were revealed during the negotiations with respect to our military relations with Brazil. This is essential if the Guided Missile Agreement is to be implemented in a cooperative and harmonious manner and if we are to secure Brazilian agreement to our other military requirements for which our Ambassador is negotiating. I do not wish to imply that I agree with the Brazilian criticisms of our military assistance program, but we must conduct our relations with Brazil in the knowledge that Brazilian officials hold such strong views.

I was pleased to learn that our delegation to the Joint Brazil–United States Military Commission has already been instructed to undertake exploratory discussions with their Brazilian counterparts with a view to obtaining a more precise statement from the Brazilians as to what they consider their responsibilities to be and what units they require to discharge them. Having closely followed this matter as it developed over the last several months, I believe that we should take the following additional steps promptly:

1. Expedite the delivery of equipment which has been approved for Brazil under the military assistance program.
2. Assign to Brazil a higher priority for military equipment so that when equipment is approved it will be delivered in a reasonably prompt manner.
3. Review the role we desire to have Brazil perform in Hemisphere defense and revise existing military understandings to conform to that role.
4. Determine the units which Brazil requires to perform this defense role and reach agreement with Brazil as to how the United States plans to assist in providing equipment for those units.

I believe if we take the foregoing steps immediately we can reach a clear and frank understanding with Brazil on defense arrangements and thereby do much to dissipate the strong feelings which exist. Any delay in coming to such an understanding with the Brazilians would, of course, make the ultimate solution of our problem more difficult.

I should be happy to discuss this matter with you if you so desire and wish to assure you that Mr. Rubottom and his staff are prepared to cooperate in every way possible in our common objective of restoring a high level of cooperation and confidence to our relations with Brazil.

Sincerely yours,

Robert Murphy[2]

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[2] Printed from a copy which bears this typed signature.

359. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, January 26, 1957—7 p.m.

767. By way of comment on local reception of Fernando Noronha Agreement, . . . Leaders of public opinion, including 3 former Foreign Ministers and numerous political leaders, all declared themselves in favor of agreement during last few days before signature. While Commies have since continued screaming, effect their campaign seems largely to have petered out. I do not now anticipate much more than pillow fight over this issue when Congress reconvenes next week, even though virus nationalism remains force with which we must continue to reckon in our future dealings with Brazil.

Briggs

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[1] Source: Department of State, Central Files, 711.56332/1–2657. Confidential.

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360. Letter From the Assistant Secretary of Defense for International Security Affairs (Gray) to the Deputy Under Secretary of State (Murphy)[1]

Washington, February 4, 1957.

DEAR BOB: I refer to your letter of 24 January 1957 concerning the conclusion of the agreement with the Brazilian Government for the United States Government to proceed with the construction and operation of a guided missile tracking station on the island of Fernando de Noronha.[2]

In recognition of the expressed dissatisfaction of the Brazilian Government in the Military Assistance Program and that Government's desire for increased assistance and in anticipation of the conclusion of the agreement referenced above, I requested the Chairman, Joint Chiefs of Staff on 5 January 1957 to review as a matter of priority the Brazilian proposal contained in "Recommendation 18" and subsequent requests in light of the current U.S.–Brazil military agreements and plans. The Joint Chiefs of Staff were further requested to furnish necessary guidance to the U.S. delegation to JBUSDC and JBUSMC for conduct of the military discussions following conclusion of the aforementioned agreement.

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[1] Source: Department of State, Central Files, 711.56332/2–457. Secret.

[2] Document 358.

I have, in recognition of Department of Defense responsibility for carrying out the terms of Paragraph 6 of the agreement signed on 21 January 1957, subsequently requested the Chairman, Joint Chiefs of Staff to examine immediately the military "responsibilities" of Brazil in consideration of Paragraph 6 of the agreement and NSC Action No. 1484[3] and to provide further guidance to the U.S. Delegation of JBUSDC and JBUSMC in conducting the joint U.S.–Brazil examination of responsibilities, as agreed.

With regard to your views on additional steps to be taken promptly, the Department of Defense, within national policy, has taken previous action to promote better understanding with the Brazilian military.

Deliveries of the 1950–1956 program for equipment and supplies to Brazil are 90 percent complete with the recent transfer of the two submarines.[4] Much of the remaining 10 percent to be delivered is composed of items which are in short supply world-wide, such as communication and electronics equipment and H–19 helicopters. Delay in approval of apportionment of funds by the Bureau of the Budget for the 1957 Latin American program will delay deliveries of equipment included in that program.

In the matter of priority, Brazil has been given first priority for receipt of H–19 helicopters from MAP production. As you know, however, the NSC has placed Latin America in last priority in the MAP. Therefore, within the priority established by NSC policy and unless otherwise advised by the Department of State that another country in the area is to be considered, Brazil will be afforded first priority within the Latin American area on delivery of approved program equipment.

The current reappraisal of the military program for Latin America being accomplished by the Joint Chiefs of Staff will undoubtedly result in revised roles in the defense of the hemisphere for most countries in the area . . . .

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[3] NSC Action No. 1484, taken by the NSC at its 268th meeting on December 1, 1955, concerned the Intercontinental Ballistic Missile (ICBM) and Intermediate Range Ballistic Missile (IRBM) programs. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the NSC, 1955)

[4] An agreement for the loan of two U.S. submarines to Brazil was effected by an exchange of notes at Washington on January 12 and 16; for text, see 8 UST 18.

I assure you that the Department of Defense will do all possible to accomplish its responsibilities with regard to the military aspects of the program for Brazil.

Sincerely yours,

Gordon Gray

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361. Telegram From the Secretary of State to the Embassy in Brazil[1]

Washington, February 14, 1957—6:05 p.m.

703. When queried about Szulc story (Embtel 840)[2] Dept officers responded as follows for background:

Maceio and Loran stations were not new developments but additional item overall United States-Brazilian mutual defense complex under preliminary discussion by both govts for some time. Attention now directed toward them as logical next step following conclusion missiles negotiation. We assumed actual negotiations would begin some time after Brazilian Ambassador returns to Washington.

. . . .

Dulles

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[1] Source: Department of State, Central Files, 732.5–MSP/2–1357. Confidential. Drafted by Siracusa; cleared in substance with Sayre and James Wilson; and approved by Bernbaum.

[2] In telegram 840, February 13, the Embassy provided the background to a story which correspondent Tad Szulc had written for the February 8 edition of the *New York Times* regarding negotiations with Brazil for additional military facilities. "Szulc knew from Foreign Office and military contacts," the Embassy reported, "that we were asking for Maceio and Loran facilities and states he made clear at Foreign Office he could no longer withhold this information in round-up story for his paper, especially as other press correspondents likely report it." (*Ibid.*)

362. Memorandum of a Conversation, Washington, March 12, 1957[1]

SUBJECT

U.S.–Brazilian relations

PARTICIPANTS

President Eisenhower
Ambassador Peixoto of Brazil
R. R. Rubottom, Jr.—Acting Assistant Secretary of State

Ambassador Peixoto stated that he had just returned from a visit to Brazil and that President Kubitschek had requested him to seek an appointment with the President to convey the Brazilian President's personal greetings and pleasure at the President's continued recovery.[2] He also was asked to reaffirm the very high esteem in which the President and the people of the U.S. are held by President Kubitschek and the people of Brazil. The President replied that he greatly appreciated this message from President Kubitschek and was especially pleased to have the chance to talk to the Ambassador. The President alluded to his two meetings with President Kubitschek and his deep satisfaction at having had the opportunity of knowing him personally.

The Ambassador then handed a letter to the President from President Kubitschek.[3] He read the letter and commented to the Ambassador that, with respect to the paragraph expressing the hope that the high degree of cooperation of the past between Brazil and the United States could be continued, he could absolutely assure President Kubitschek that this coincided with our own aspiration. The Ambassador mentioned, apparently with reference to the content of the letter, that Brazil wanted the U.S. to cooperate in the defense of northeastern Brazil.

The Ambassador recalled having called on President Roosevelt more than 15 years ago to state to the latter on behalf of President Vargas that, in the event the U.S. found itself in war or other difficulty, it could count on Brazil's full support. The Ambassador declared that President Kubitschek had requested him to assure the President that Brazil continued to hold this position and that, in the event of any world emergency, Brazil would be at our side. The President expressed his gratification at this renewed pledge of President Kubitschek on behalf of Brazil.

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[1] Source: Eisenhower Library, Whitman File, International File. Secret. Drafted by Rubottom.

[2] In a memorandum to Eisenhower, dated March 6, Under Secretary of State Christian A. Herter recommended that the President meet with Ambassador Peixoto since he had "strongly supported" the U.S. position in the Fernando de Noronha negotiations. In addition, he pointed out that a meeting with Peixoto "would support negotiations now in progress for establishment in Brazil of an Army communications center and three Coast Guard Loran stations." (*Ibid.*, Herter Papers, Chronological File)

[3] This letter responded to President Eisenhower's communication of December 14, 1956, regarding the guided missiles tracking station (see Document 348) and made reference to the defense negotiations scheduled to begin soon in Washington. A copy of the letter is in Department of State, Central Files, 732.5–MSP/3–1957.

Ambassador Peixoto mentioned Brazil's intense interest in obtaining 24 C1–MAV–1's type freighters for coastwise traffic. Mr. Rubottom explained that the Ambassador and he had discussed this Brazilian request on several occasions and that the Department was following the matter very closely although specific legislation was required to effect the sale of the vessels which were also much in demand by several other countries. The President acknowledged Brazil's need for such freighters in view of her tremendous coastline and stated that he was sure that the U.S. would cooperate to the best of its ability in order to help Brazil meet its requirements.[4]

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[4] On March 14, Siracusa drafted a reply to Kubitschek; it was forwarded to the President for his approval on March 19 under cover of a memorandum from Dulles. Eisenhower approved the letter without change on March 21. (*Ibid.*) It was transmitted to the Embassy in telegram 844 to Rio de Janeiro, March 21. The letter reads in part as follows:

"The conclusion of an agreement to establish a guided missiles tracking station on Fernando de Noronha Island was most gratifying to me and I sincerely appreciate the personal actions you took to bring this negotiation to a prompt and mutually satisfactory conclusion. As you are aware, this installation will play an important role in the development of weapons vital for the defense of Brazil and the United States, as well as of the entire free world. Its establishment on Brazilian territory is an important step toward realization of this great purpose." (*Ibid.*, 711.56332/3–2157)

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363. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, May 22, 1957—7 p.m.

1272. Deptel 1109.[2] In realm current Brazil-U.S. relations, problem posed by Brazilian desire additional EXIM Bank financing at time when performance regarding inflation, etc. unimpressive may be one of our most difficult questions, bearing directly on broad political as well as economic matters. It has been Embassy's belief shared insofar we aware by Department, EXIM Bank, and Treasury, that no easy solution this problem likely, . . . Reluctance stems from political factors which we also recognize no government can ignore.

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[1] Source: Department of State, Central Files, 832.10/5–2257. Confidential.

[2] In telegram 1109, May 17, the Department informed the Embassy that Brazilian officials in the United States had recently complained that U.S. policy regarding financial support for Brazilian development had changed. In a conversation with Minister-Counselor Valle, Rubottom had stated "categorically" that U.S. policy had (Continued)

At same time EXIM Bank loans to Brazil should not be dependent on satisfaction of impossible prerequisites nor upon ultimate lowering Bank's standards to permit extension of loans when prerequisites unfulfilled. Either we should be serious about prerequisites or refrain from establishing them.

With foregoing factors in mind, Embassy concurs position taken Department and EXIM Bank that it would be unwise finance any new large-scale electric power projects until there has been substantial performance in reducing rate of inflation. . . . Specifically, Embassy suggests EXIM Bank now indicate willingness further to consider loans for major new electric power projects when satisfactory legislation has been enacted and when rate of inflation has been reduced to approximately 10 percent per annum (inflation during first 4 months current year approximately 7½ percent).

Suggest our views be presented to Brazilians informally rather than in writing, without prescribing specific anti-inflationary measures, and that publicity should of course be avoided. Subject highly critical and politically explosive in Brazil and should Bank express views in writing thereon and communication thereafter become public, government could be seriously embarrassed by accusation and misrepresentation of extreme nationalists.[3]

Briggs

(Continued)

not changed and that the Export-Import Bank and the Department had merely agreed to apply the letter and spirit of the agreement made with Brazil the previous year that new large-scale development financing would be unwise until inflation was checked. (*Ibid.*, 832.10/5–1757)

[3] In telegram 1147 to Rio de Janeiro, May 28, the Department informed the Embassy that Arey had told Pinheiro on May 23 that the Export-Import Bank was not at that time prepared to undertake study applications for the Furnas power project or any other large Brazilian projects. Arey had pointed out that the inflation rate in Brazil during 1956 had been substantial, and that it would be necessary to wait for some months to determine whether real progress was being made during 1957 in curbing inflation. (*Ibid.*, 832.10/5–2857) In conversations with Department officials, Pinheiro mentioned that financing the Furnas hydroelectric power project would require an initial credit of $50 million.

364. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, July 18, 1957—8 p.m.

77. Embassy believes we have reached important perhaps critical point in our relations with Brazilian military, and that outcome may bear also on our political and general relations in immediate future. It is suggested this message be considered in latter context.

Called yesterday afternoon on Secretary General Moura of Foreign Office primarily to confirm as per Department telegram 45[2] unavailability C–54's desired by Brazilian Air Force. He told me Foreign Minister wanted see me, and Moura and I had 20 minutes alone before spending 3 quarters hour with Macedo Soares, last part of which with Minister Aviation Fleuss present at Foreign Minister's request. What Moura and Foreign Minister said adds up approximately to the following:

1. Brazilian military, on which stability present government depends, went along last January with Fernando de Noronha Agreement, with varying degrees uneagerness, because A) Brazilian military recognizes US and Brazil must in final showdown be allies and B) Article 6 Fernando de Noronha Agreement notwithstanding fuzziness gives military the hold on claim to additional hardware.

2. Having exchanged Fernando de Noronha Agreement for Article 6, Brazilian military now unwilling accede further US military requests (Maceio and Loran) unless US provides military support for Brazil over and above present MDAP program.

3. Question is therefore: What if anything are we willing to pay, in military matériel, for additional facilities we have requested? It is as simple, and complicated, as that.

Conversation with Moura in substance as follows:

"Let us not deceive ourselves about role of military in Latin America; they run the show in practically every country, including Brazil. Fortunately in Brazil military has tradition of supporting civilian government and acting as watch dog of constitution—providing civilian government looks after military . . . .

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[1] Source: Department of State, Central Files, 732.5622/7–1857. Secret. Transmitted in two sections.

[2] In telegram 45, July 12, the Department explained that the Brazilian Foreign Minister had recently been informed that the six C–54's Brazil had requested from the United States were not available. (*Ibid.*, 732.5622/7–1057)

. . . .

Net of Moura's observations is that unless US willing raise hardware ante, . . . attitude of Brazilian military toward collaboration with US be affected . . . .

Moura and I then adjourned to Foreign Minister's office where Macedo Soares promoted same thesis, but less directly. He first called in assistant who read Articles 66 and 87 of constitution to effect that foreign soldiers (we desire station several hundred at proposed communications center) cannot be on Brazilian soil in absence authorization Congress, which might eventually be forthcoming but only after long delay and ferocious nationalistic attack. Therefore any Maceio–Loran agreement negotiated within framework present Washington negotiations would have to go Congress.[3]

However, both Minister and President believe best interest Brazil favor our having facilities requested and they are accordingly taking new look at Ambassador Peixoto's "let's do it" in Washington idea. Macedo Soares then returned to package deal discussed last January and proposition that whereas current discussions reference facilities are based on Washington request to Brazil, our military collaboration in this particular ought to stem from thesis (which Macedo Soares recalled last August in connection with Fernando de Noronha) that Brazil has requested certain military collaboration from US along specified lines. Foreign Minister said way to arrange Maceio and Loran facilities is to return it [*to*?] Itamaraty idea of Brazil request for US collaboration, in effect packaged deal which on one side would include "what we want, and on Brazilian side enough to satisfy military". In this connection he also mentioned highway from Rio to "northeast defense area". Thus (he argued inconsistently) overall project would be presented to Brazilian public as mutual defense effort initiated by Brazil and in those circumstances arrangements would not have to be submitted to Brazilian Congress.

As relevant to all of which Macedo Soares said he wished specifically our urgent support toward Minister of Aviation Fleuss by making available to Brazilian Air Force limited number 4-motor planes. This would also keep Air Force "on our side". (He phoned Fleuss at that juncture and Minister joined us 5 minutes later, with request for assistance described following telegram.[4])

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[3] Documentation concerning these negotiations in Washington between Brazilian and U.S. representatives in regard to proposed military facilities agreements is *ibid.*, Central Files 732.5–MSP and 711.56332.

[4] Not further identified.

My suggestion is that we inspect this clouded crystal ball in general context indicated by Itamaraty. I do not regard Macedo Soares' remarks as a definite request that negotiations be returned Itamaraty nor am I convinced that if package deal were satisfactory in other particulars there might not result nationalistic demand that agreement be submitted to Brazilian Congress. (I reminded both Moura and Minister that Pentagon meeting scheduled July 17 specifically to consider Article 6 Fernando de Noronha Agreement.)

What emerges from these conversations is 1) fact that we can have communications and Loran facilities, but only for price of additional equipment, 2) it seems clear that if we decline meet price (or give up idea of new facilities) we may still be faced with considerable Brazilian military resentment. . . .

I recommend that conversations with Brazilian military in Washington be conducted with above firmly in mind.

Briggs

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365. Memorandum of a Conversation, Department of State, Washington, August 22, 1957[1]

SUBJECT

Secretary Anderson's Conversation with Secretary Dulles Regarding His Visit to Brazil and Argentina and Regarding the Buenos Aires Economic Conference

PARTICIPANTS

The Secretary of State
The Honorable Robert B. Anderson, Secretary of the Treasury
Mr. William P. Snow, Acting Assistant Secretary of State for Inter-American Affairs

Secretary Anderson came to the Department at 4:00 p.m. today to discuss with Secretary Dulles the former's recent visit to Brazil and Argentina and the progress of the Economic Conference at Buenos Aires.[2]

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[1] Source: Department of State, Central Files, 033.1100–AN/8–2257. Confidential. Drafted by Snow.

[2] The Economic Conference of the Organization of American States met at Buenos Aires, August 15–September 4. Anderson was the chairman of the U.S. Delegation to the conference. For documentation on this subject, see vol. VI, Documents 135 ff.

——He had stopped in Rio de Janeiro for two days on his way to Buenos Aires. The Brazilian Finance Minister, Sr. Alkmin, and the head of the Economic Section of the Foreign Office, Sr. Barbosa daSilva, were among the officials with whom he conversed. They were disposed to discuss frankly with him the economic situation of their country, and even to exchange informal views on the basic problems encountered by persons in their positions in helping to run a country from the economic and financial standpoint. Although Brazil's dollar exchange balance was down to $11 million, a very low figure, they did not seem unduly concerned.

With regard to coffee production, they asserted that, despite some new plantings of coffee trees, Brazil was not seeking to increase the quantity of production so much as to improve the quality. Secretary Anderson learned that about 40% of the country's foreign currency expenditure went for fuel imports, while coffee comprised from 60 to 70% of exports, making the country heavily dependent on coffee as an export commodity, and much in need of a better solution of its fuel problem. The exchange imbalance was aggravated by the natural desire of Brazilians to import in volume such products as automobiles; hence the need for high duties as a control measure.

Secretary Anderson was . . . favorably impressed with President Kubitschek . . . . The President gave a dinner for him, to which he invited the leader of the political Opposition. Secretary Anderson considered this a mark in the President's favor . . . . .

President Kubitschek acknowledged privately that . . . . Another presidential problem was the legislative practice whereby the Congress not only had the right of "item veto" but also that of deletion. An administration bill, for example, containing a negative sentence could have the negative word deleted, thereby completely changing the meaning of the sentence. The President had just been through the process of achieving a revision of the tariff, which made him acutely aware of the congressional problem.

Secretary Anderson also saw Sr. Amaral da Peixoto, the Brazilian Ambassador to Washington. Ambassador Peixoto is the head of the party of which President Kubitschek is a member. At a dinner given by the Foreign Minister, Secretary Anderson sat beside Ambassador Peixoto, who brought up the Brazilian petroleum situation. Secretary Anderson told him that petroleum was a subject he would not have raised himself but he was willing to discuss it and was interested to hear the Ambassador's views. . . .

. . . .

[Here follows discussion of other matters related to the Buenos Aires Economic Conference.]

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366. Memorandum of a Conversation, Department of State, Washington, August 28, 1957[1]

SUBJECT

Call Upon the Secretary by Ambassador Briggs

PARTICIPANTS

The Secretary
The Honorable Ellis O. Briggs, American Ambassador to Brazil
Mr. William P. Snow, Acting Assistant Secretary of State for Inter-American Affairs

Ambassador Briggs called to see the Secretary this afternoon at 2:30 to pay his respects and to discuss our relations with Brazil.[2] The Ambassador informed the Secretary that our relations with Brazil were, generally speaking, on a firm and friendly basis. This could be said especially of our political and economic relations. On the military side, matters were not proceeding quite as comfortably, mainly because Brazil as an emerging world power was inclined to feel that our military assistance was not on a scale commensurate with Brazil's importance as a trusted ally and with its relative importance as compared with the other Latin American countries.

The Ambassador mentioned that Brazil had a population of 60 million people now and expected to have 100 million by 1980. These figures, together with Brazil's known and potential resources, would help to explain Brazil's coming role in the world. The Secretary commented that mere size of population did not connote world power, even when coupled with abundant natural resources. It depends upon what you do with them. India and China had vast populations, and China, at least, had been quite well endowed with resources, but hitherto these nations have not exerted the necessary energy and skill or followed the right policies to develop a status equal to their size. Recently, it was true, Red China had begun to move toward industrial and military strength but the reason obviously was that Russia had been giving substantial support in money, materials and technical assistance.

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[1] Source: Department of State, Central Files, 611.32/8–2857. Official Use Only. Drafted by Snow.

[2] In a memorandum dated August 27, Snow briefed Dulles on the scheduled meeting with Briggs, noting that he was "calling to pay his respects and to report on the state of our relations with Brazil. He will raise no special problems requiring your personal attention." (*Ibid.*, 611.32/8–2757)

Brazil seemed to have continuous problems of a financial nature, the Secretary recalled. When he first assumed office, there had just been prepared a joint economic survey indicating a need for several hundred million dollars of U.S. public capital for development purposes, and there had been rather difficult discussions about that. He asked how much Export-Import Bank credit was outstanding now with Brazil. Ambassador Briggs and Mr. Snow replied that the Bank had made loans of approximately 1.2 billion dollars to Brazil since 1934; the balance outstanding at present was $416 million. The Secretary referred to Brazil's aversion to foreign private capital investment as illustrated by the petroleum situation. With petroleum imports taking as much as one-third of the country's available foreign exchange, Petrobras, the government monopoly, stood as a barrier to the entry of foreign private companies, who could probably do the most toward increasing production if allowed the opportunity. The United States had been developed by British and French capital in the main. Canada was now going forward at a surprising rate on the basis of abundant U.S. private capital. It was unfortunate that nationalistic sentiments in Brazil stood in the way of a similar process.

Ambassador Briggs pointed out that Senator Morse[3] might be visiting Brazil and other Latin American countries this fall in furtherance of his strong interest in our petroleum policy. He thought we might wish to be prepared for the Senator's further critical probings into our policy.

Speaking again of the Brazilian military, the Ambassador said that, by and large, the Armed Services were content to support constitutionality rather than to take political power themselves, although there had been occasional exceptions to this rule. President Kubitschek, however, was to a considerable degree dependent upon the good will of the Services for his continuance in office and sought to keep them satisfied as well as united in the political sense.

The Secretary asked how it could be, as reported to him by Secretary Robert Anderson, that a favorable coffee crop might actually have an unfavorable result for Brazil financially. The Ambassador replied that last year's crop had been a large one; if as expected, the present crop were also to reach bumper proportions, the market price of the commodity might drop considerably, with adverse results to the foreign exchange position of the country. The dollar exchange level was already surprisingly low.

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[3] Wayne Morse (D.–Ore.).

The Ambassador also spoke briefly about current negotiations involving military equipment, the guided missile tracking station, and other pending issues.

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367. Telegram From the Chargé in Brazil (Wallner) to the Department of State[1]

Rio de Janeiro, October 4, 1957—3 p.m.

462. Embassy has prepared analysis of present situation in Brazil covering economic, political, psychological fields which is going forward as despatch 379[2] by tonight's pouch. Conclusions, which were reached only after careful consideration of all available data, have Embassy-wide concurrence.

These conclusions are:

1. Serious economic difficulties face Brazil during the next 2 or 3 years:

a) The balance of payments outlook is critical, with a probable deficit for 1957 of as much as $250 million and a worsening situation thereafter.

i) No significant improvements are foreseen in exports.

ii) As most luxury items have already been eliminated from imports, little further compression is possible except at the expense of economic development.

b) Internally inflation continues, though at a slower rate in the first half of 1957 than in 1956.

c) Combined effects of payments trouble and inflation exacerbate an imbalance in the economic growth of Brazil.

2. Foreign financing will be needed, such as:

a) Public and private standby credit lines.

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[1] Source: Department of State, Central Files, 832.10/10–457. Confidential.

[2] This 11-page despatch of October 4 is entitled "Brazil's Approaching Problems." (*Ibid.*, 832.00/10–457)

b) Relief when requested on Eximbank and other existing obligations.

c) Further IMF assistance.

d) New public credits (Eximbank and IBRD) to continue basic economic development.

e) Continued flow of private US and European investment, encouraged by US Government confidence in Brazil.

3. The political structure and psychological climate . . . could set in motion a sequence of political developments basically contrary to the interests of the US.

4. It would seem in the broad, long-term interests of the US to assist Brazil through its coming international payments difficulties and foster more balanced economic growth, based on a mutually agreed program aimed at correcting the conditions which have led to the present situation. At the same time it is important to continue and intensify our efforts to promote effective cooperation with Brazil in the political and military fields.

Wallner

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368. Memorandum From the Ambassador to Brazil (Briggs) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, October 16, 1957.

SUBJECT

Call on President Eisenhower re Brazilian Matters

I called on the President this morning pursuant to a request made through the Department of State. My presentation of the Brazilian situation during a conversation which lasted one-quarter of an hour followed the lines of the summary contained in Embassy telegram 462 of October 4,[2] particularly with respect to the serious economic difficulties which will probably face Brazil in the near future, and the possibility that these difficulties may produce political disturbances and developments in Brazil basically contrary to the interests of the United States.

The President inquired whether Brazil is meeting her present financial commitments to the United States and I replied in the affirmative, adding that pursuant to the existing Export-Import Bank arrangements relief as to amortization may shortly be requested.

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[1] Source: Department of State, Central Files, 832.10/10–557. Secret.

[2] *Supra.*

There was a brief discussion of coffee prospects during which I indicated that not only Brazil but other countries also have greatly increased their acreage, and that forecasters in Agriculture appear unanimous that over-production will occur within a year or two accompanied by a corresponding fall in prices. Since Brazil depends on coffee for 70% of her dollar earnings any substantial drop in coffee prices is bound to be serious. I also mentioned that Brazil is now spending approximately one-half of her coffee earnings on petroleum imports and on subsidizing Petrobras, and the other half on servicing her dollar debt.

The President asked how President Kubitschek's economic program is going to which I replied that although progress is being made, the program is of vast dimensions and its execution is not being accompanied by successful efforts to combat inflation, which amounted to almost 30% in 1956 and is now running about 12% to 15% for 1957. In the subsequent discussion, I derived the following impressions:

1) That the President shares my belief that, notwithstanding the fact that many of Brazil's difficulties are of her own making, it is clearly to our national interest to continue to collaborate with Brazil, to view with sympathy Brazil's various problems, to seek by sound counsel to assist in the solution of those problems, and in general to see to it that the country maintains as even a keel as possible.

2) That the President is of the opinion that a renewed communist drive in Latin America, perhaps utilizing as a springboard Soviet technical competence as demonstrated by the satellite, is a distinct possibility and threat. (I mentioned this subject, and the President concurred.)

In conclusion, the President asked that on my return I convey to President Kubitschek a message of personal greeting and good wishes, recalling their previous meetings and correspondence concerning Fernando de Noronha.

Attached is a copy of a telegram to Embassy Rio de Janeiro concerning the questions asked by correspondents following my meeting with the President.[3]

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[3] The attached telegram, not printed, is in Department of State, Central Files, 123–Briggs, Ellis O.

In telegram 593 from Rio de Janeiro, November 5, Briggs reported that he had called on Kubitschek that morning and conveyed to him Eisenhower's personal greeting "as per my White House conversation October 16." Briggs summarized the meeting in part as follows:

(Continued)

369. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, November 7, 1957—7 p.m.

608. Notwithstanding brave words and comforting assurances Brazil leaders, I believe citizens this country profoundly affected by Russian scientific achievement[2] and that Brazil confidence in American technological supremacy has been temporarily impaired. Obviously first concern is re-establishment confidence in our abilities, but within that urgent preoccupation following observations are submitted as germane to local scene:

1. Although President Kubitschek's declarations reported Embassy telegram 593[3] envisage no change Brazil's policy, nevertheless in light orbital astonishment some reassessment by Brazilians of this country's position in free world versus Communist world struggle seems inevitable. Combined strength proponents thereof should not be underestimated. Furthermore Brazil public opinion confused stream, fifty percent illiterate. It is tempting water for Communist fishing.

2. Brazil must be primary Latin American Communist target new campaign, triggered by belief spectacular scientific achievement presents opportune moment, has already begun. Its immediate objectives are probably trade-plus-diplomatic relations, and legalizing Communist party. But other attractive fields may include development Brazil's enormous resources: offer to loan Petrobras X million dollars at nominal interest, with petroleum technicians attached, may be imminent possibility. Iron resources may appear almost equally tempting.

3. Kubitschek administration while well-meaning . . . lacks broad basis popular support. Financial difficulties impend and can multiply GOB's troubles. We can continue to shore up government,

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(Continued)

"The President stated that the policy of the US with respect to Brazil had been a wise one; that despite growing manifestations of extreme nationalism the US had not altered its policy of economic assistance, and that his economic development program which proceeding according to schedule would have been completely impossible without such aid. I felt there was some implication in that he anticipates further economic assistance in order maintain rhythm his program.

"Summing up present situation, Kubitschek reiterated fundamental policy continuing close collaboration with US, plus assurances mentioned reference telegram that his government would neither reestablish relations with USSR nor legalize local CP." (*Ibid.*)

[1] Source: Department of State, Central Files, 611.32/11–757. Secret.

[2] Reference is to the successful launching by the Soviet Union on Oct. 4 of the first man-made earth satellite into outer space, Sputnik I.

[3] See footnote 3, *supra*.

at not insignificant cost: we should probably continue to do so. . . . Government's success in countering demands for "reassessment" inevitably handicapped even though friendship and good intentions of administration are believed genuine and based on leaders' conviction of self interest.

4. Our assumption that Latin America is a safe rear area might well be re-examined. Brazil possesses gigantic potential but its safety in baleful Sputnik afterglow is debatable matter. Brazil also enjoys leadership value in hemisphere by reason of size, population and relative freedom from parochial rivalries. I again suggest that within framework of inter-American relations, Brazil should occupy special position.

5. Brazil leaders are eager to be taken into our confidence, and to share our plans. Personal message given Kubitschek November 5 from President Eisenhower had excellent effect. Whatever we do to give Brazilians sense of greater participation pays dividends. Last year Brazil wanted send observer to NATO. We rejected proposal, fearing it might lead to 20 neighborhood kibitzers cluttering up premises. Now however, consonant with Secretary's "we do not stand alone" estimate, might it not be desirable invite OAS (rather than separate members) to send observer to NATO?

Following that meeting, visit to Rio and perhaps other principal hemisphere capitals by Secretary would seem desirable, especially since Latin Americans remember last visit terminated because of Suez crisis.

After same meeting Spaak[4] or some other non-American spokesman of prominence might profitably tour good neighborhood, seeking to interpret free Europe to Latin America (and incidentally soothe new world apprehensions over Common Market).

Canada's position vis-à-vis OAS might likewise be re-examined with view to making greater use of Canada as hemisphere partner.

7. Foregoing and other moves and suggestions will doubtless occur to Department. Purpose this message is to warn that recent assurances, sincere though I regard them to be, give scant ground for complacency in post-satellite Brazilian situation.

Briggs

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[4] Paul-Henri Spaak, Secretary General of NATO.

370. Memorandum of a Conversation, Department of Defense, Washington, November 13, 1957[1]

SUBJECT

Negotiations for the Communications Facility at Maceió & Loran Stations

PARTICIPANTS

Colonel Thomas B. Hanford, Department of Defense
Mr. James Wilson, Department of Defense
OSA—Mr. Siracusa
OSA/B—Mr. Briggs

Mr. Siracusa said that he and Mr. Briggs had come to the Defense Department to confer with Colonel Hanford and Mr. Wilson regarding the current thinking in the Department of Defense concerning the negotiations for the communications facility at Maceió and the three Loran stations. He pointed out that the Brazilians, in their consideration of the amounts and types of military material which they might expect to obtain through the current negotiations growing out of the Guided Missiles Agreement, would very probably be influenced by United States intentions with respect to Maceió and the Loran stations. He recalled the Army's recent decision to locate the communications facility in Puerto Rico rather than in Brazil and the recent telegram from Embassy Rio recommending that the Brazilians be informed of this decision as soon as possible.[2] He said that he wished to support the Embassy's recommendation by pointing out that if the Brazilians could be informed that the United States no longer requires rights at Maceió, the result would be to strengthen our bargaining position in the present negotiations. He added that the Department of State understands that there is a requirement of Congressional action before the Maceió project can be abandoned and the funds allocated thereto be used in another location, and he questioned whether this Congressional action is of such a nature as to require long delay in informing the Brazilians of the prospective change in program.

Colonel Hanford said that the action called for is relatively routine, inasmuch as it does not require appropriation of additional funds, but rather authorization to use in Puerto Rico funds already appropriated for a similar purpose in Brazil. He expressed the opinion that Congress therefore would probably approve the change as a procedural rather than a substantive matter. Mr. Wilson volunteered to ask that the Department of Army sound out the appropriate committee of the Congress on the possibility of going ahead and informing the Brazilians of the proposed change prior to formal Congressional action. He said that it should be possible on this basis to give the Department a definite answer within a day or so.

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[1] Source: Department of State, Central Files, 711.56332/11–1357. Secret. Drafted by William T. Briggs of the Office of South American Affairs.

[2] Reference is to telegram 587, November 4. (*Ibid.*, 711.56332/11–457)

Mr. Siracusa then asked whether a decision had been reached on the possibility of offering the Loran stations to the Brazilians as a form of military grant aid. He said that if this could be done there would be less likelihood of the United States having to resist additional pressures by the Brazilian negotiators for more equipment as quid pro quo for the Loran station rights and pointed out that such an offer of the Loran stations might even be used to reduce the total amount which the Brazilians might expect to receive in the current negotiations. United States objectives would be equally well served by this arrangement, inasmuch as United States technicians would train the Brazilians to operate the Loran stations and we would receive the benefits derived from their existence, he continued.

Mr. Wilson replied that it now appears that this whole matter may be academic, inasmuch as the Loran requirements are being reviewed at the staff level and it seems probable that it will be decided not to go ahead with the three stations in Brazil. He added, however, that should the requirement be maintained, it is highly doubtful that the Loran stations could be treated as a part of the military grant aid package. This is because of a procedural requirement that, in cases where the United States needs these facilities, it must—originally at least—have administrative control of them at the outset, even though subsequently the facilities may eventually be turned over to the host country.

Mr. Siracusa said that the Department would not be displeased if Defense should decide that the Loran station rights are no longer needed, inasmuch as this would make our negotiating tasks easier.

Mr. Siracusa then referred to indications which he had received that the Air Force may now consider that the Fernando de Noronha Missile Tracking Station is now less important than formerly, due to progress in missile development and the acquisition of other sites. Both Defense representatives categorically denied such reports, and stated emphatically that the importance of the Fernando de Noronha station has not declined and that it still has the same high priority in Defense planning that it had a year ago.

371. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, December 27, 1957—6 p.m.

802. Embassy notes with concern suggestion in ARA memo to Under Secretary Murphy dated December 6, 1957[2] that United States postpone notifying Brazil our decision abandon Maceio and Loran projects because of recent Brazil manifestations of interest in NATO. We doubt that remarks of Foreign Minister Macedo Soares were motivated by consideration of influencing current United States–Brazil military talks in Washington; rather we believe his action reflects continuing Brazil interest project itself on world stage, as well as genuine concern solidarity free world in face Soviet efforts extract political, economic and military benefits from Sputnik achievements. Foreign Minister's observations were in any event notably qualified by official communiqué of December 5 (Embassy telegram 709).[3]

Embassy strongly of opinion continued delay notifying Brazil regarding Maceio and Loran projects and related delay in reaching decision on additional military assistance in Washington military talks bound to rebound increasingly to our disadvantage. Considerations set forth in Siracusa memo October 5 to Rubottom in connection over-all discussion problem with General Trapnell in our view remain complete valid. If we dilly-dally much longer on military aid question Brazil reaction can be distinctly embarrassing.

In this connection be it noted that first anniversary Fernando de Noronha agreement comes January 21. Brazil cooperation in all phases implementation agreement here and on the spot in Recife and Noronha has been markedly close and effective. If military aid talks continue stagnant and unproductive we can expect some unpleasant commentaries and increasingly negative attitude from Brazilians. This would be particularly unfortunate right now when USSR and

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[1] Source: Department of State, Central Files, 711.56332/12–2757. Confidential.

[2] Not found in Department of State files.

[3] Telegram 709, December 6, transmitted to the Department the text of a Brazilian Foreign Office communiqué regarding the possibility of Brazil joining the North Atlantic Treaty Organization. The statement indicated that Brazil was not seeking admission to NATO and that it could not consider possible membership without first carefully studying the effect of such a position on the inter-American system of hemisphere defense. (Department of State, Central Files, 740.5/12–657)

Soviet Bloc busily wooing Brazilians on political and economic fronts.[4]

Briggs

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[4] In telegram 761 to Rio de Janeiro, January 8, 1958, the Department explained that Rubottom would inform Peixoto on January 10 of the U.S. desire to terminate the Maceió and Loran negotiations since a reevaluation by the Signal Corps and the Coast Guard had resulted in the decision that the United States would no longer require those facilities. No information regarding U.S. consideration of an alternate site, the Department pointed out, should be given to the Brazilians. (*Ibid.*, 711.56332/12–2757)

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372. Despatch From the Ambassador in Brazil (Briggs) to the Department of State[1]

No. 724 *Rio de Janeiro, December 31, 1957.*

REFERENCE

Embassy's despatches no. 694, December 20, 1956[2] and no. 379, October 4, 1957[3]

SUBJECT

Brazil in 1958

CONTENTS

I. Predictions
II. Discussion of 1957
III. Recommended American Action

I. Predictions

Grasping a crystal ball, Embassy Rio predicts for 1958. In a land where the improbable often occurs, forecasting is precarious: that "God is a Brazilian" seems to be believed by a substantial part of the people. They may be right, at that.

1. In 1958 the Brazilian economic situation will further deteriorate. . . . include *Inflation, Unbalanced Economic Development,*[4] and *Depleted*

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[1] Source: Department of State, Central Files, 611.32/12–3157. Confidential.

[2] This despatch is entitled "U.S.-Brazil relations at turn of year: Unimpressive Record of Kubitschek Administration." (*Ibid.*, 611.32/12–2056)

[3] See Document 367.

[4] President Kubitschek's development program correctly emphasizes power, transportation and food supply. It is unevenly implemented, with industrial development out of balance with other items. [Footnote in the source text.]

Dollar Reserves. But . . . the most menacing . . . is *Overproduction of Coffee.*

2. Uncle Sam will again be invited to tidy up . . . .

3. The political situation will be turbulent. With gubernatorial and congressional elections scheduled for 1958, the new year will also see a sampling of presidential aspirations. The Kubitschek administration will find it even more difficult to govern effectively, to come to grips with national issues. The temptation to sweep them under the rug will be harder to resist.

4. . . . virus nationalism will grow stronger in 1958. Promoted simultaneously by demagogic champions of the underprivileged and by the Communists, it may be the number one problem of the United States in relations with Brazil in the new year. Petrobras will be a gainer. The outlook for such legislation of interest to the United States as private power and atomic energy will be clouded. If an investment guarantee agreement is negotiated, its fate in the Brazilian Congress will be uncertain.

5. Unless there develops an economic crisis of such magnitude that it generates irresistible political pressures, the Brazilian armed forces will continue to support the Kubitschek administration, which will therefore survive its third year, with two more to go. . . .

6. An exception may be the new capital, Brasilia—Kubitschek's bid for posterity. In 1958 Brasilia will go forward.

7. Nineteen fifty-eight will see increased Brazilian contacts with the Soviet Bloc, intensified commercial activities, and perhaps resumption of relations with Russia. This will not mean "Brazil has gone Communist" but it may multiply our headaches.

8. There may be some reorientation of Brazilian diplomacy toward a neutralist position. The recent hocus-pocus about "Latinity" is discounted. Fine for after-banquet oratory and UN doings with Arabs, but lacking other substance.

9. The struggle of the Brazilian have-nots for a fairer share of the national income will continue, more hotly, in 1958. Electoral activities will accelerate it. This is the most fundamental issue facing the country. The ultimate outcome, evolution or revolution, remains in doubt. The military, balance wheel of Brazil and traditionally conservative, should prevent an eruption in 1958.

II. Discussion

For Brazil, 1957 was not outstandingly successful. Politically the country was relatively tranquil and industrial production increased, but the economy as a whole deteriorated. Progress was lopsided and uneven: icing but little cake, . . . Narrow nationalism continued to increase. By year-end Brazil was being ardently courted by Russia, with "Soviet trade" advertised as a solution for overproduction of coffee.

Some of Brazil's problems are the inevitable growing pains of an emerging world power: by 1980 the country will have 100 million inhabitants. The south, whose economic capital is São Paulo, is bursting at the seams, with the abundance of energy and optimism we associate with American growth nearly a century earlier. Rio, choking in its traffic fumes, contributes little to national progress. Nevertheless the Brazilian frontier is being developed, by men with bulldozers and tractors and airplanes. New resources are being tapped and old resources—like the pines of Parana—are being demolished in the process.

The distribution of income in Brazil is grossly inequitable. The bulk of the population, especially from Rio to the north, have little more than subsistence. They are fifty percent illiterate. Mounting awareness of the sterility of their existence could trigger the social revolution that has been pending ever since the slaves were freed and the Empire overthrown, seventy years ago. Revolution will probably not occur in 1958, but the ingredients are there, dangerously fermenting.

The Communists have found a formidable weapon in the frustrated nationalism of the articulate disenchanted.

American leadership, long taken for granted in Brazil, is being questioned. In the international field, Brazil observes with uneasiness the deepening free-world versus slave-world struggle. The Brazilian people, still clearly on our side, are nevertheless examining their position. In the economic field our collaboration is belittled. ("It is unimaginative; it is insufficient; it has failed to solve our problems.")

Political leadership in Brazil in 1957 was wobbly, . . .

Specifically, the Brazilian Government in 1957:

1. Failed to control inflation. . . .

2. Adopted a coffee policy most observers consider lunatic, if not suicidal. A coffee crisis approaches. . . .

3. In four areas of special interest to the United States, Brazil failed in 1957—

a) to take effective measures against Communism,
b) . . .
c) to adopt legislation facilitating the expansion of private electric power companies,
d) to adopt atomic power legislation.

On the plus side of the ledger, the Brazilian Government:

1. Enacted a needed new tariff, the effects of which remain to be assayed. In connection therewith, it somewhat simplified its exchange system.

2. Enacted national railroad legislation which may permit (we hope) an efficient reorganization of the state-owned Brazilian carriers. In exchange, Brazil received a $100 million railroad credit from the American Government.

3. Studied, and still studies, plans for exploiting Brazil's tremendous iron resources. Iron, plus manganese and bauxite, are Brazil's hidden aces as earners of dollars. . . .

4. Implemented defense arrangements with the United States involving the temporary use by the American military of Fernando de Noronha. On the other hand, Brazilian negotiations for increased military assistance from the United States made little perceptible progress.

III. Recommended American Policy

1. It is in our national interest to continue to support Brazil, politically and economically. Half the continent in size and population, Brazil is the only South American country with legitimate aspirations to world power. Her potential is gigantic. Total American investments, private and public, already exceed two billion dollars. To keep our enemies from polluting the existing reservoir of goodwill should remain cardinal American policy.

2. Responsive to Brazilian request, substantial additional Government credit should be forthcoming. This may be chiefly for power development, and refunding, but it may have to include emergency assistance to meet the coffee situation. In order to help Brazil to help herself, . . . for example, we should examine whether, in acceding to a request for public power credit, prior action by the Brazilian Government on private power legislation might not be in order.

3. We should increase our efforts toward exploitation of Brazilian iron, manganese and bauxite resources by private American investors. Substantial United States Government credits to facilitate such exploitation may be required.

4. We should continue our efforts to encourage the Kubitschek administration to establish effective measures to combat Communism per se, and to protect itself from Communist subversion. The United States cannot, while maintaining relations with Russia, indefinitely forestall Brazil's doing so. We can, however, promote the establishment of realistic safeguards.

5. Petrobras will fail in 1958 to narrow the gap between petroleum supply and demand. It will nevertheless go through the year with undiminished popular support. The Russians may enter the picture. It behooves us, now, to reassess our policy toward the Brazilian petroleum monopoly.

6. We would also do well to examine again the criticism against our past collaboration in the economic field, including the charge that it has been "unimaginative, insufficient, and has failed to solve Brazil's problems".

7. We should continue our technical assistance program at approximately the current level—four to five million dollars per year. Emphasis should be on converting existing projects to Brazilian management. Selection of new projects should depend on priority in importance as manifested by Brazil and confirmed by our Government, and on the establishment of terminal dates.

8. The existing Public Law 480 contracts should be fulfilled.

9. The present modest USIS program can continue to lend important support in the fields of public relations, films, press, radio-TV and cultural collaboration. (One Satchmo Armstrong is sometimes worth five art exhibits.)

10. Too many Americans working for the United States Government in Brazil can handicap the attainment of our objectives. Their presence, especially in Rio, is a target for nationalism. The State Department should examine the roster of *all agencies* operating in Brazil, to determine whether additional retrenchment would not be desirable.

Ellis O. Briggs

CHILE

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND CHILE[1]

373. Preliminary Notes on a Meeting of the Operations Coordinating Board[2]

Washington, January 19, 1955.

[Here follows discussion of agenda items 1 and 2, "Terms of Reference for a Temporary Interdepartmental Working Group on Admission of Visitors to the United States" and "Progress Report on NSC 5432/1 (Latin America)." For text of NSC 5432/1, "United States Objectives and Courses of Action With Respect to Latin America," approved on September 3, 1954, see *Foreign Relations,* 1952–1954, volume IV, page 81.]

Agenda Item 3. Follow-up discussion of Courses of Action in Connection With Current Developments in Chile

Mr. Staats reviewed briefly the development of the Board's consideration of a "Chilean Program". Mr. Hoover explained Amb. Beaulac's[3] absence because of a personal emergency and introduced Mr. Atwood who read an informal report from Amb. Beaulac and discussed current conditions in Chile and proposed courses of action regarding Chile.

Mr. Overby of Treasury expressed support of the evaluation that the present Chilean Cabinet is "not much good". He also supported the idea of holding up economic and financial assistance until and unless the Chilean Cabinet actually takes some positive measures.

Mr. Stassen said that the basic decision, which is one for the Department of State, is whether we want the present government of

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[1] Continued from *Foreign Relations,* 1952–1954, vol. IV, pp. 666 ff.

[2] Source: Department of State, OCB Files: Lot 62 D 430, Chile. Secret. Drafted by Max W. Bishop on January 20. In a memorandum to Henry F. Holland dated January 20, Bishop transmitted excerpts from his preliminary notes on this meeting. (*Ibid.,* Central Files, 720.5/1–2055)

[3] Beaulac was in Washington for consultations at the Department, but was unable to attend this meeting because of an illness in his family.

Chile to survive. He suggested that the United States had missed a good opportunity when it failed to help the previous government[4] which had a good Finance Minister[5] and a good program. He went on to say that the United States had held "too tight a rein" on Chile and that this represented an important principle of how to handle situations of this sort.

Mr. Hoover pointed out that the Finance Minister in the previous government had failed for internal reasons and not because of any action or lack of action on the part of the United States. Mr. Hoover pointed out that, for one thing, Prat had staked entirely too much on an inter-American bank which had not materialized.

Mr. Dulles suggested that it is unlikely that we'll have anything except a bad situation in Chile for as long as President Ibáñez is around.

Mr. Rockefeller described at some length his conversation with Mr. Cruz-Coke.[6]

[Here follows discussion of Brazil followed by a discussion of Indochina in agenda item 4.]

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[4] A new Chilean cabinet was announced by President Carlos Ibáñez del Campo on January 6.

[5] Jorge Prat. Francisco Cuevas replaced Prat as Finance Minister on January 6.

[6] Senator Eduardo Cruz-Coke, President of the Foreign Relations Committee of the Chilean Senate, was on a brief visit to the United States. He had discussed with Rockefeller the possibility of establishing unofficial contact with a Chilean representative in regard to economic matters of importance to the United States and Chile. (Letter from Atwood to Rockefeller, February 10; Department of State, Central Files, 832.10/2–455)

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374. Memorandum of a Conversation Between President Ibáñez del Campo and the Ambassador in Chile (Beaulac), Santiago, January 26, 1955[1]

I told the President that, as he knew, my conversations in Washington had been interrupted by my mother-in-law's illness and death, but that before returning to Chile I had already had very interesting conversations with persons high in our Government and wanted to give him my impressions. The President said he would be very glad to have them.

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[1] Source: Department of State, Central Files, 825.00/2–2755. Confidential. Transmitted to the Department as an enclosure to despatch 524, January 27.

I said that, as seen from Washington, the Latin American panorama is very interesting. I said that it is evident that the countries where there is the greatest prosperity are where relative economic freedom exists, such as, Mexico, El Salvador, Costa Rica, Colombia, Peru and Uruguay. The countries that are having the greatest difficulty, especially with reference to availability of dollars, are the countries that have complicated machinery for government intervention in economic matters.

So far as Chile is concerned, Washington is convinced that the principal hope for solution of Chile's economic problems rests in private investment.

It is clear that if the copper companies, for example, instead of producing some $250,000,000 a year for Chile should produce $500,000,000, then Chile's urgent economic and social problems, and many of her political problems too, would be settled.

This result, in turn, can only be brought about through improved treatment to the copper companies. In other words, economic problems must receive economic solutions. No other solutions are possible.

For these reasons, I was encouraged by the progress that has been made in the Senate committee with reference to the copper bill,[2] and encouraged by the President's own intervention, vis-à-vis, his Ministers, and, vis-à-vis, the Congress, with reference to the bill. The President's attitude had confirmed the impression I had carried to Washington that he remained resolved to find solutions to the problems of the copper companies.

The President interrupted to say that it still looked like a long process to him. He was hoping that the bill would be approved before the Congress adjourned but if that was not possible, the Congress would have to deal with it in March.

I said I was hoping that the bill would be approved by the Congress before it adjourns, and I had the impression that there was a good possibility if the President maintained his present interest.

Referring to the copper bill, I said that the tax rate on copper would still be the highest in the world, and this would place Chile in a precarious position, particularly if copper prices should go down.

The President noted that a considerable reduction in taxes would result from the bill.

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[2] This bill, introduced in the Chilean Chamber of Deputies on March 3, 1954, was approved by the Senate on January 26, 1955, and the Congress as a whole on February 4. Drafted at a time when the competitive status of Chilean copper was threatened, the new law sought to correct that situation by safeguarding Chile's share of the world markets. Despatch 567 from Santiago, February 8, summarized the chief provisions of the bill as well as the U.S. interest in it. (*Ibid.*, 835.2542/2–855)

I said that whereas my Government was convinced that Chile's urgent economic problems could be solved only with the cooperation of private capital, it still envisaged the possibility of cooperation with Chile by agencies of the United States Government and international agencies, such as the International Monetary Fund.

I recalled that the President of the Export-Import Bank[3] had had certain conversations when he was down here looking to the possible financing of certain exports to Chile, and Chile had had discussions with the IMF concerning a drawing or a standby fund.

I said my Government was a little confused, of course, with reference to these matters because only a few days prior to my departure from Chile, the President had selected a new Cabinet. It was too early to judge the desires or intentions of that Cabinet. However, my Government was prepared to cooperate with the Government of Chile if requested to do so and if Chile created conditions which would make it possible to cooperate.

I recalled that meanwhile the Embassy had been prepared for the past week to sign an agreement with Chile for the exportation of $5,000,000 worth of agricultural products but the Chilean Government was delaying signature because it was not sure whether it was authorized to sign without advance Congressional approval. The President noted that the Government, as such, was not authorized to sign but that CORFO could sign. I did not pursue this subject. The President noted that $20,000,000 rather than $5,000,000 had been mentioned at first. I said that $5,000,000 was the amount agreed upon, but that it was possible that additional negotiations would take place later.

At this point, I recalled to the President that Under Secretary of State Herbert Hoover, Jr., had had interesting conversations with Finance Minister Jorge Prat in Rio de Janeiro on the subject of Chilean petroleum,[4] and following his return to Santiago Mr. Prat had told Embassy officials that the Chilean Government would send a communication to the Embassy requesting that the Government of the United States give Chile expert help in drawing up adequate petroleum legislation. I said that no such request had been received, and I was wondering whether this was still Chile's desire. I noted that I had talked to Mr. Hoover in Washington. I recalled that Mr. Hoover had brought in the first well in Chile's history; that he knew the Chilean problem intimately; and that he had a great personal interest in Chile and was disposed to give Chile any assistance possible.

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[3] Glen E. Edgerton.

[4] A memorandum of this conversation, which took place on December 2, 1954, is in *Foreign Relations,* 1952–1954, vol. IV, p. 755.

The President said that the petroleum legislation introduced in Congress was inadequate and he was going to withdraw it. He said that he, himself, had wanted a bill which would have reserved Magallanes for the ENAP and would have allowed foreign companies to explore and exploit in the rest of the country (the present bill does reserve Magallanes for the ENAP). He did not take this opportunity to request assistance from the United States.

I told the President that Mr. Roy Merritt, who is a petroleum expert and an old friend of mine, and who is Counselor to Under Secretary Hoover, is making a trip through this part of South America soon and, if the President so desired, I would ask him to come to Chile and I would bring him to see the President.[5] The President said he would be delighted to talk to him.

I reminded the President that my interest in this matter arose out of the conversations that his Minister of Finance had had with Mr. Hoover, and that I was not trying to influence the President with reference to the attitude he should take toward Chile's petroleum. The President said that he understood this and he would be glad to see Mr. Merritt.

The President said he had an item of news for me—that he was going to change his Ambassador in Washington. Jara would submit his resignation in a few days and he was going to name Jorge Silva whom he described as a competent man who had practically been brought up in the United States and was very fond of the United States. "We will see whether the Senate will confirm him," he said.

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[5] Documentation on Merritt's Latin American trip is in Department of State Central File 110.4–ARA; his scheduled visit to Chile was later cancelled.

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375. Editorial Note

On January 27, Ambassador Beaulac and Acting Chilean Minister for Foreign Affairs Rafael L. Tarud signed an agreement in Santiago regarding the sale of surplus United States agricultural commodities to Chile. The agreement, which provided for the sale of commodities valued at approximately $5 million, was concluded under Title I of Public Law 480, the Agricultural Trade Development and Assistance Act of 1954, enacted on July 10, 1954 (68 Stat. 454). For text of the agreement, see 6 UST 893. Additional documentation on the negotiation of this agreement is in Department of State, Central File 411.2541.

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376. Despatch From the Ambassador in Chile (Beaulac) to the Department of State[1]

No. 546 *Santiago, February 2, 1955.*

REF

Embdesp. No. 547 of February 2, 1955[2]

SUBJECT

Truth-telling Campaign

Since the beginning of World War II, the United States has given material aid to Latin America in amounts never known before and never even dreamed of before by Latin America. It goes without saying that no comparable aid has been received by Latin America from any other part of the world.

During this time, also, the Government of the United States has maintained an information service, presently known as the USIA, which has spent many millions of dollars trying to explain the United States to the Latin American peoples and trying to help create an atmosphere favorable to cooperation with the United States.

Nevertheless, in certain countries of Latin America, such as Chile, the position of the United States has deteriorated, especially insofar as concerns the treatment of American private interests.

It is submitted that this situation is due principally to the circumstance that there does not exist, between the United States and those Latin American countries, the degree of understanding *with reference to matters that are of greatest importance in their relations,* which is needed as a basis and as a prelude to constructive cooperation.

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[1] Source: Department of State, Central Files, 611.25/2–255. Secret.

[2] In despatch 547, Beaulac reiterated the need to carry out a "truth-telling campaign" not only in Santiago but also in the United States. He enclosed some clippings from a Chilean newspaper to illustrate the point. (*Ibid.*)

Our Failure to Talk to the Latin Americans About Things They Are Interested In

Through public statements by our President and our Secretary of State, and through the extensive operations of the USIA and its predecessors, the Government of the United States has made an effort to convince the Latin American people of the justice of its views with reference to the great international issues to which our Government attaches overwhelming importance, such as the menace of international communism, the re-arming of Western Germany, Korea, and Indo-China.

However, a majority of the Latin American people, because of poverty, ignorance, and isolation, are less interested in these important subjects than they are in where their next meal is coming from; whether or not they can feed and clothe their children properly, and other basic and urgent needs.

The international communists in Latin America recognize the urgent interest which the Latin Americans have in these subjects and play upon that interest in ways that are harmful both to the peoples of Latin America and to the position of the United States in Latin America.

A principal objective of the communists in Latin America is to prevent or at least to hinder economic development. The communists know that economic development in Latin America will not be possible without cooperation by private United States interests, and by the United States Government and international agencies in which the United States Government has an important voice, and they try to accomplish their objective by making that cooperation impossible or at least difficult.

They do this by making it appear that the United States and United States private interests are principally responsible for Latin America's urgent needs not having been met. In Chile, for example, the communists, and the demagogues who parrot the communist line, say that the United States does not help Chile enough; that the United States copper companies are imperialistic; that they take copper out of Chile and leave nothing but a hole in the ground; that the United States buys Chile's raw materials cheap and sells Chile manufactured goods at high prices; that the United States cheated Chile out of $500,000,000 during the last war by freezing the price of Chilean copper.

These and other similar charges have been repeated so often in Chile, without refutation by the United States or by United States private interests involved, that they have come to be accepted by the Chilean masses, and have helped to create a climate in which the United States copper companies, although they are by far the most important element in Chile's economy, producing from 50 to 70% of Chile's foreign exchange, are given the worst tax treatment of any industry in the country (84% of profits today). The tax treatment of the copper companies, in turn, has discouraged those companies from making further investments in Chile. It also has discouraged other foreign capital from investing in Chile.

United States Government Burdened with Responsibility for Failures of Latin American Governments and Peoples

A part of the phenomenon which has caused our position in Latin America to deteriorate is the habit which persons in political life have acquired of blaming the United States Government for their countries' failures, particularly along economic lines.

The United States, of recent years, has voluntarily assumed a degree of responsibility for helping to improve the economies of the so-called under-developed countries. Many Latin Americans have gone far beyond the position we have taken, however, and now consider that the United States has *the major* responsibility for improving the economies of the undeveloped countries.

Thus, it has become possible for political leaders in Latin America to explain their own failures or inadequacies in the economic field by saying that their countries have not received enough help from the United States.

This not only has damaged the position of the United States in Latin America, but it also has retarded economic development by removing pressure from the Latin Americans to do for themselves the things they should do and must do in their own interest.

In a country like Brazil, for example, it is clear to any objective student that the country's balance of payments and other financial problems are related directly to the circumstance that, for political reasons, Brazil will not permit foreign companies to exploit Brazil's petroleum resources and, as a result, Brazil has to spend some $275,000,000 a year for petroleum imports. However, it has been common for Brazilians to attribute their balance of payments and other financial problems to insufficient cooperation by the United States Government and by such agencies as the Export-Import Bank and the International Bank.

Truth-Telling Campaign Needed

During the past year, the Embassy in Santiago, and the American copper companies, have made an effort to see that the Chilean people are told the truth about those matters involving the United States and the copper companies concerning which the communists and demagogues have been deceiving them during recent years. That campaign has had some success.

The Embassy considers that a major effort by our Government is now required in order to further improve our position.

Public opinion has decisive importance in Chile. Chile has a free press, and a free radio, and the Chileans have inquiring minds.

Cooperation cannot exist except in a climate of understanding, and understanding between us and the Chileans cannot exist if we are talking about one set of figures and acting on the basis of one set of premises and the Chileans are talking about another set of figures and are acting on the basis of another set of premises.

It is proposed that we intensify our efforts to bring about a situation in which we and the Chileans have the same set of figures and the same premises. The Embassy considers that until we are able to do this, satisfactory cooperation with Chile will not be possible.

Role of USIA

USIA has agreed to step up its supply of material which the Embassy in Santiago may use in its campaign of truth-telling. Excellent material of this kind is now being received and put to good use. USIA maintains, however, that it is not authorized to engage in any operations within the United States aimed at affecting the situation in Latin America. That function, it would appear, belongs to the Department of State.

Role of the Department of State

Historically, one of the functions of the diplomat has been to defend the good name of his country abroad. Since the establishment of an information service, the Department of State and its representatives abroad have tended to neglect that function. It is proposed that the Department give renewed attention to this important function, particularly in view of the circumstance that much of the work of defending the good name of the United States must be done in the United States, itself, and because of the position taken by USIA that it is not authorized to operate in the United States.

Operations in the United States

As noted earlier in this memorandum, the President of the United States and the Secretary of State make frequent public statements regarding the great international issues, but few comparable public statements are made with reference to the issues that are most important to the people of Latin America. The occasional speeches made by such officials as the Assistant Secretary of State for Latin America have been very helpful, but they do not of themselves fill the need described. Public speeches, of course, are only one, and not necessarily the most effective of the many devices that are available to us.

The Embassy proposes that a system be established under which the Secretary of State, the Under Secretary of State, the Assistant Secretary of State for Latin America, and other competent officials of the United States shall from time to time say things concerning matters of real importance to Latin America which involve the United States and which those officials are, therefore, authorized to comment on. It is recommended also that friendly Senators and Representatives, and persons outside of the Government who are competent in subjects involving Latin America, be helped and encouraged to make statements concerning those matters. If the persons and the subjects are well chosen, our great news agencies will carry their remarks and their remarks will be published in every important newspaper in Latin America. A single statement of this kind, which our Government can arrange to have made at only nominal expense, may be more valuable as a means of affecting public opinion in Latin America than thousands of dollars worth of printed matter, radio programs, and so forth and so on.

It is suggested, also, that the Department help to prepare and to furnish to feature writers and to others information concerning our problems in Latin America so that those persons can prepare accurate articles and reports which can be reproduced in Latin America and which also can serve as the basis of news agency reports to Latin America. There is ample evidence that the Latin American public is avid for this kind of information.

Additional Staff for Economic Section in Santiago

There are certain problems that are common to most countries in Latin America. The State Department can best prepare background material on those problems and distribute it to the Embassies, to feature writers, and to persons authorized and disposed to comment on these matters. There are other problems involving the United States that are peculiar to the various countries. The Embassy in each country necessarily is most intimately informed concerning those problems, and is in the best position to prepare material for use in the country concerned and to serve as the basis for comment in the United States (or in some cases in still another country) for later reproduction in the country concerned.

In the specific case of Chile, it is suggested that the Embassy in Santiago be supplied with a competent person, trained in economics and with a flair for writing, to be detailed to the Economic Section, whose principal duty will be to supply background material, to prepare articles for publication in Chile and in the United States, to be alert to the need and opportunity for public statements of the kind suggested, and to suggest the substance of those statements.[3]

Willard L. Beaulac

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[3] Beaulac forwarded a copy of this despatch to Secretary Dulles along with a personal letter dated February 3. The letter reads in part:

"I am enclosing a copy of my Despatch No. 546 pointing out the need that we in Santiago feel exists for a truth-telling campaign aimed at restoring to the United States and United States interests in Chile the excellent position that we once held but do not hold today despite all the help that we have given Chile, and all the millions of dollars we have spent on information activities in Chile.

"We are convinced here that the despatch reaches down into the essence of our troubles in Chile and also in many other Latin American countries. We give our truth-telling campaign primary importance. If the Department will go along with us, I am confident that over a period of time we can accomplish a great deal for ourselves and for Chile, too." (*Ibid.*, 611.25/2–355)

On February 17, Under Secretary Hoover replied to Ambassador Beaulac's letter to Secretary Dulles of February 3. Hoover's letter reads in part:

"As you undoubtedly know, the [Operations Coordinating] Board agreed in general with a plan of operations for Chile which include the additional USIA officer to be assigned to the Embassy to do exactly the type of work suggested in your despatch. I am glad to say that the selection of a well qualified officer is proceeding rapidly and action is well advanced. I sincerely hope that this officer will prove useful in carrying forward the program that you suggested." (*Ibid.*)

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377. Editorial Note

On March 25, the OCB Working Group on NSC 5432/1 prepared a special report on Chile. The Operations Coordinating Board discussed the report at its April 6 meeting. Noting the necessity for a more positive and immediate approach to Chile, the Board instructed the Departments of State and the Treasury to prepare a report for its next meeting, scheduled for April 13. (Department of State, OCB Files: Lot 62 D 430, Chile) The requested report, entitled "Supplementary Report on Chile," was approved by Treasury as well as the Bureau of Inter-American Affairs and the Bureau of Economic Affairs and enclosed in a memorandum from Holland to Hoover of April 11. "It presents," Holland pointed out, "what we believe to be a constructive first step which can be taken in the near future; a more dramatic and costly program would in all likelihood defeat its own purposes." (*Ibid.*) The Special Report on Chile and the Supplementary Report were both approved by the OCB at the meeting of April 13; see *infra* and Document 379.

378. Preliminary Notes on a Meeting of the Operations Coordinating Board, Washington, April 13, 1955[1]

1. Special Report on Chile

Elmer Staats gave a brief introduction of the item. Mr. Hoover circulated the memorandum which he had received from ARA[2] and said that, while we have a great deal of concern over the situation in Chile, it is one in which there is little that the United States can do itself. We must merely keep a careful eye on the situation and move in if and when there is an opportunity. There was general agreement that it would be very worthwhile if the Chilean Government would obtain the services of a top-flight firm, such as Klein and Saks from New York.[3] Mr. Hoover pointed out that Mr. Klein[4] was in poor health and that it was really regrettable there were not more firms of the high caliber of this firm. Mr. Stassen mentioned FOA's experience with one or two firms which had been of great help. Nelson Rockefeller wondered whether there was anything which could be done internally in Chile to unite some of the factions. Mr. Hoover replied that this is a situation in which one is practically forced to "play it by ear" and that we have considerable flexibility and hope to have that continued flexibility in coming legislation to move in upon a situation quickly.

It was agreed to approve last week's paper (dated March 28)[5] with the understanding that the paper circulated by the Department of State today would be an addendum and that there would be added a reference to the International Monetary Fund, as requested by Mr. Overby of Treasury, in paragraph 4 of last week's paper.

[Here follows a discussion of items unrelated to Chile.]

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Chile. Secret. Drafted by Bishop.

[2] See the editorial note, *supra.*

[3] A firm of economic consultants.

[4] Julius Klein, Director of Klein–Saks. He had served as Assistant Secretary of Commerce.

[5] Reference is to the Supplementary Report on Chile, circulated to the OCB on March 28 under cover of a memorandum by Staats. (Department of State, OCB Files: Lot 62 D 430, Chile)

379. Special Report by the Operations Coordinating Board[1]

Washington, April 13, 1955.

SPECIAL REPORT ON CHILE

I. Analysis

1. The Working Group concluded that the present situation in Chile was serious but that the country was not likely to fall under Communist control in the near future. The political scene is marked by weakness and ineptitude in the Executive and a high degree of Congressional irresponsibility, and the two branches are frequently in conflict. The Communists, strongly entrenched in Chile since the days of the Popular Front in the '30's wield great influence among the students and in the labor movement, where efforts of the free trade union movement to displace them have not to date been successful. The armed forces and carabineros, however, are believed relatively free from Communist influence.

2. Chile's economy is in a lamentable condition, but economic difficulties have been present for many years and the current developments have not produced an atmosphere of crisis. The country is in the grip of galloping inflation: prices rose 71% during 1954 and the Government's budget is and for years has been seriously unbalanced. The exchange system has operated to distort trade patterns, misdirect investment, subsidize favored groups and contribute to the depression of agriculture. Efforts at applying direct economic controls have been uncoordinated, ineffective and have distorted domestic productive patterns. Agricultural production has been falling off, forcing Chile, which was at one time an agricultural exporting country, to devote roughly 25% of its foreign exchange income to food imports. Industrial productivity is low and there have been a series of labor disputes and strikes, usually motivated by the need for higher wages to keep pace with spiralling prices, which lend themselves to exploitation by the Communists for political ends.

3. In the latter part of 1954, the then Finance Minister Jorge Prat attempted a modest program of economic reform designed to stabilize the economy within a period of two to three years, but his policies aroused considerable domestic opposition. The Cabinet of which Prat was the most prominent member resigned at the end of 1954, and Prat's successor withdrew most of his program for consid-

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Chile. Secret. Transmitted to the OCB on April 15 under cover of a note from Staats. In the note, he stated that the special report had been amended to include the revised Department of State supplementary report which was concurred in by the Board on April 13.

eration before Congress and there has been no visible effort to replace it with any worthwhile alternative.

4. The Communists in Chile, as in other countries of the world, endeavor to prevent economic development and improvement in living standards except under their own aegis. In doing so they direct their efforts at limiting or preventing U.S. cooperation in Chile's development. They attack the U.S. and U.S. interests with reference to matters in which the Chilean masses are directly interested, such as prices of raw materials, prices of imported products and profits of American companies. By appealing to Chilean nationalism and by repeating false and misleading statements on these matters, they have succeeded in Chile in building up a climate in which it has been politically profitable, though economically harmful, for the Chilean Government to discriminate against American interests in Chile, particularly the copper interests.

II. Basic Approach

5. Achievement of economic stability is primarily a Chilean problem toward the solution of which the United States can, however, make an important[2] contribution. Our basic approach to this problem is as follows:

a. It is in the interest of the U.S. to help Chile achieve a stable and healthy economy.

b. Such an economy cannot be achieved unless Chile, herself, does certain basic things in her own interest.

c. U.S. assistance to Chile will not be effective unless it is related to and coordinated with effective Chilean action.

d. U.S. assistance which is not so related and coordinated will probably not only be ineffective but may actually be harmful to Chile by encouraging and making possible the continuance of uneconomic practices and by lessening the chance that Chile will take the steps she should take in her own interest.

e. Grant economic aid is not required because Chile has the potential with which to repay assistance. It also is undesirable, because it is not in consonance with the need to strengthen Chilean backbone and self-respect so that she will tackle her own problems.

f. The risks in a continuing deterioration of the Chilean economic situation while we await Chilean action are not such as to require immediate extraordinary measures by the U.S.

g. If Chilean action should not be forthcoming and the danger should appear of a serious deterioration of the social fabric, the U.S. should promptly re-examine the situation. The steps which might be appropriate as a result of this re-examination cannot be satisfactorily determined at present, but the situation in Chile and the effectiveness of the measures taken by the United States and Chile should be the subject of continuing scrutiny, study and planning.

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[2] The Treasury maintains that it is "only a limited" contribution. [Footnote in the source text.]

h. In devising measures to deal with Chile's problems we must always keep in mind the extreme sensitivity of the Chileans to anything they could interpret as foreign intervention in Chile's domestic affairs. Any reasonably substantiated charge of U.S. intervention in internal matters would not only alienate large segments of the populace for a considerable period but would seriously damage our general position in Chile.

6. The steps Chile should take to enable U.S. assistance to be effective are:

a. Initiate an effective program designed to halt inflation.

b. Improve further the competitive basis of Chilean copper and nitrate. This includes giving fair treatment to the industries involved.

c. Improve the system of exchange control with a view to arriving eventually at a system of free exchange.

d. Achieve more efficient utilization of Chilean petroleum resources.

e. Stimulate agricultural production.

f. Encourage new private investment, including foreign investment.

Annex A

April 13, 1955.

SUPPLEMENTARY REPORT ON CHILE[3]

1. Our basic approach to the problem of Chile remains as stated in the foregoing Special Report [discussed by the Board on April 6].[4] In order to achieve a stable economy, Chile herself must initiate an effective program to halt inflation; U.S. economic assistance to Chile not accompanied by effective Chilean action would not only be ineffective but actually harmful since it would make it possible for Chile to continue her present uneconomic practices.

2. It has been and remains our policy to take advantage of every feasible opportunity to encourage the Chileans to take remedial action. It is possible that such an opportunity may be presented if the Chilean Council of Ministers carries out a proposal adopted on April 5 to employ a commission of technicians in economic and financial matters. Dr. Julius Klein stated on April 8 that he had been approached by the Chileans regarding the possibility of his firm's

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[3] Secret. The source text indicates this report was drafted in the Department of State.

[4] Brackets in the source text.

advising them on various administrative matters and that he planned to send his partner, Mr. Saks, to see what could be done. It is not sure that this approach is related to the Cabinet's decision though it may be. Although further information must be obtained before our exact position can be determined, it is suggested that our tentative policy be as follows:

a. Through Embassy Santiago discreetly encourage the Chilean authorities to follow through on their announced intention of contracting for a commission.

b. Also through the Embassy, endeavor tactfully to insure that the Chileans select for a commission persons of ability, integrity and reputation, so that the commission's findings will carry weight.

c. In carrying out the foregoing actions, refrain from sponsoring or appearing to sponsor a commission, so that the United States will not be regarded as responsible for its recommendations.

d. Through State and Treasury, with the collaboration as appropriate of the International Bank (IBRD), the Export-Import Bank and the International Monetary Fund, aid Chile if requested to obtain the best available persons to serve on a commission.

e. If the commission's recommendations are sound and the Chileans demonstrate their willingness to carry them out, the United States should then consider action found to be feasible at that time.

f. During commission's study we will continue to urge the Chileans to take steps which are generally agreed upon as desirable to combat inflation, such as those already suggested by the IMF Mission.

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380. Telegram From the Secretary of State to the Embassy in Chile[1]

Washington, April 19, 1955—6:46 p.m.

297. Reference Embtel 335.[2] OCB has concurred in Department recommendation US through Embassy Santiago discreetly encourage Chilean authorities to follow through their announced intention of contracting commission and insure that Chileans select persons of ability integrity and reputation so that commission's findings will carry weight. In carrying out these actions Embassy should bear in

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[1] Source: Department of State, Central Files, 825.00/4–555. Secret. Drafted and approved by William Belton.

[2] Telegram 335, April 4, reported that the Chilean Cabinet announced the previous day that it had "agreed to contract in US a commission of technicians in economic and financial matters." (*Ibid.*)

mind US desire refrain from appearing to sponsor commission. FYI Chileans have approached firm of Klein & Saks and Saks planning visit Chile to discuss matter.[3]

Dulles

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[3] In telegram 35 to Santiago, July 22, the Department informed the Embassy that Klein–Saks had completed their negotiations with the Chilean Government regarding the proposed economic mission and that the firm was ready to start operations as soon as the composition of the mission was determined. (*Ibid.*, 825.00/7–2855)

The Embassy presented a detailed analysis of the situation affecting the prospects of the Klein–Saks mission to Chile in despatch 241 from Santiago, September 23. It concluded that from an economic point of view the timing of the mission was propitious, but there were several other factors which suggested that "the mission is bound to have a hard row to hoe." (*Ibid.*, 835.00/9–2355) Additional documentation regarding the Klein–Saks mission to Chile is *ibid.*, OSA Files: Lot 58 D 558, Klein & Saks Mission.

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381. Editorial Note

On May 5, the new Chilean copper law entered into effect. A detailed analysis of it is in *Current Economic Developments*, Issue No. 468, May 24, 1955, pages 13–18. "Climaxing more than a year of legislative effort and political and economic controversy," the report noted in part, "this new measure makes a fundamental change in the statutory and administrative provisions applicable to the copper industry, which constitutes the basis of Chile's economy. To the large American copper companies operating in Chile and producing the bulk of its foreign exchange, the law affords necessary financial relief and purports to restore control over sales of their product. By improving the treatment of invested capital and the general climate for new investments, the law provides encouragement for the modernization and expansion of the nation's leading industry.

"Coming at a time when the competitive status of Chilean copper has been threatened, the new law holds promise of correcting this situation and safeguarding Chile's share of world markets. Although an item of domestic legislation, the copper bill has been a matter of importance in US-Chilean relations over the past year. Its enactment into law represents a satisfactory conclusion from the point of view of the US interests concerned. The net reaction of the American copper companies is favorable; while the new law is not everything that might have been desired, it is probably as good as could have been obtained within the limitations of existing conditions. An evaluation of the practical effects of the law must await its application, since the degree to which its intentions are implemented in operative regulations will be the significant factor. However, the law seems to have inspired confidence on the part of the foreign copper companies, for shortly after it was signed they announced plans to spend a total of $7 million in immediate expansion and in opening up new mines. The law is representative of slow but encouraging progress on the part of Chile toward a more rational utilization of the economic resources with which it has been endowed." (Department of State, *Current Economic Developments:* Lot 70 D 467)

Current Economic Developments was a semimonthly classified periodical prepared by the Bureau of Economic Affairs in the Department of State for internal use as a background and policy guidance report for policy-level officers of the United States Government serving in the United States and abroad.

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382. Memorandum of a Conversation, Department of State, Washington, May 19, 1956[1]

SUBJECT

Chilean Controls of Copper Exports

PARTICIPANTS

Ambassador Beaulac
Admiral DeLany, Deputy Director, MDAC
Mr. Anderson, FOA/MDAC
Mr. Hockersmith, Commerce
Mr. Wright, State
Mr. Belton, State
Mr. Strong, State
Mrs. Mulliken, State

An inter-agency meeting was held in New State on May 17, 1955, to discuss with Ambassador Beaulac current Soviet bloc efforts to import copper and the copper export control problem in Chile.[2]

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[1] Source: Department of State, Central Files, 460.259/5–1955. Secret. Drafted by Thomas S. Strong of the Office of International Trade and Resources.

[2] U.S. interest in the export of Chilean copper to the Soviet Union and other Communist nations was part of a general policy which encouraged the application of multilateral export controls on trade in strategic items with Communist countries. For a comprehensive summary of the export control system, see *The Strategic Trade Control System, 1948–1956,* the Ninth Report to Congress by the Director of the International (Continued)

The government agencies represented were State, Commerce and MDAC.

Admiral DeLany, Deputy Director, MDAC,[3] informed the Ambassador that unauthorized copper diversions to the Soviet bloc were frustrating the controls placed upon copper exports by the COCOM PCs and that a study is being made in Washington to identify the weakness in the Chilean copper export controls. When the study is completed a recommendation will be made concerning the best approach for obtaining Chilean cooperation in extending her controls to close existing diversion loopholes.

The following was explained at the meeting:

1. The IC/DV system (source control) and the TAC scheme (trans-shipment control) were developed and accepted by the PCs as being the best controls acceptable at present for preventing diversions.

2. Chile, being one of the world's largest producers of copper, has been asked on numerous occasions during the past four years to participate in the COCOM control plan by applying effective controls over her copper exports. Although source controls have been applied partially they have not been extended to a point which would remove completely the possibility of diversion of Chilean copper.

3. The bilateral approaches made to the Chilean Government on the implementation of effective controls have met with only limited success since Chile has not applied the IC/DV system to copper produced by the small mining companies and has not applied it to all of the production of the two large companies.

4. During 1954 there were undoubtedly diversions of Chilean copper to the bloc and the amount so diverted may have been as much as 25,000 tons which includes blister and refined, but does not include semi-manufacturers, scrap, ores and concentrates, and wire.

5. All other large copper producing countries in the free world have agreed to apply effective controls over their strategic copper exports.

6. It is appropriate that immediate action be taken to obtain Chile's full cooperation in applying effective export controls including IC/DV and TAC to all strategic copper exports in view of (a) current COCOM efforts to secure the broadest possible third country cooperative effort in the TAC scheme (which would require Chile formally to enter the scheme and permit publication of her name as a participating country); (b) the recently enacted Chilean copper legislation which will affect the existing pattern of export controls and will necessitate redefining the control arrangements; (c)

(Continued)

Cooperation Administration on the Mutual Defense Assistance Control Act of 1951 (Washington, 1957). For text of the Mutual Defense Assistance Control Act, commonly known as the Battle Act after its sponsor Representative Laurie C. Battle of Alabama, see 65 Stat. 644.

[3] Vice Admiral Walter S. DeLany was also Chairman of the Economic Defense Advisory Committee (EDAC).

the advisability of taking action while the present high demand for copper prevails and before the present copper position shifts from a seller's market to a buyer's market, thus making it more difficult to obtain Chile's full cooperation in implementing export controls.

It was explained further that uncovered copper wire which was downgraded last year to IL III actively is being negotiated for upgrading to IL I by COCOM which should take action within the near future. With the exception of the U.K., the COCOM countries have indicated already willingness to reimpose a bare wire embargo.

The Ambassador pointed out that the present Administration in Chile, since its coming into power approximately eighteen months ago, has become progressively more receptive to U.S. proposals generally and has exhibited somewhat less political sensitivity to formed imposition of controls. It was agreed that a comprehensive instruction setting forth the basis for an approach to Chile would be prepared as soon as possible.[4]

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[4] In circular airgram 8902 to Santiago, June 15, the Department of State recommended an approach for the Embassy to take toward the Chilean Government regarding the institution of an improved export control system for strategic materials. The Department requested the Ambassador at his discretion to make an immediate approach to the Chilean Government at a high level in order to urge that an improved security export controls system be established as soon as possible. The proposed new system would include a series of technical measures regarding export licenses, import certificates, and transshipment controls, among other matters. (Department of State, Central Files, 460.259/6–1555)

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383. Editorial Note

As part of a general visit to five South American countries, Assistant Secretary Holland and Samuel C. Waugh, President of the Export-Import Bank, visited Chile November 25–27. In a memorandum of December 12 by Holland, commenting on the trip, he stated in part: "We emphasized to the Minister of Economy and Finance and other Ministers that Chile must prepare a coordinated program for combating inflation, one that has the approval of all responsible areas of the Government, and the Klein–Saks Mission should submit the program to the United States. We would then be in a position to indicate what type of aid the United States might be able to afford in coordination with such a program." (Department of State, Central Files, 110.15–HO/12–1255) In despatch 416 from Santiago, December

7, "Principal Impressions Left as a Result of Holland–Waugh Visit," the Embassy offered its analysis of the trip. (*Ibid.*, 033.1120/12–755)

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384. Telegram From the Chargé in Chile (Sanders) to the Department of State[1]

Santiago, December 21, 1955—7 p.m.

354. Vassallo Under Secretary Foreign Ministry requested see me today with Minister Economy.[2] Vassallo came alone since Minister Economy delayed in Congress but said latter would see me tomorrow to confirm what Vassallo had to say.

Vassallo said that on his return from New York recently he had told President Ibanez very limited possibility of immediate and significant assistance direct from United States Government, IBRD EXIM Bank, Monetary Fund or Technical Assistance. Only possibility he saw was PL 480 agreement. Since his return to Chile this view had been strengthened by information concerning agreements with Argentina and Brazil for surplus commodities value $30 to $40 million and providing liberal repayment over 30–40 years.[3] President had instructed him and Minister Economy discuss possibilities similar agreements for Chile.

Vassallo said Chile on threshold taking significant steps combat inflation and facing difficult transition period. Chile desperately needed help of kind it would receive under PL 480 to maintain low price for essential commodities and to ease exchange situation. Also peso proceeds surplus commodity loans and dollars saved would in part be used for public works to take up unemployment slack resulting austerity measures. Though Vassallo was not sure how far and how fast government would move in direction of free exchange he thought some important step in that direction was contemplated.

Vassallo said Argentina and Brazil have been given large amounts and on favorable terms and that Chile was in greater need than these countries, particularly in view of repercussions its proposed anti-inflationary program.

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[1] Source: Department of State, Central Files, 411.2541/12–2155. Confidential; Limited Distribution.

[2] Oscar Herrera.

[3] For documentation regarding these agreements, see Documents 178 ff. and 295 ff.

Priority items would be wheat, vegetable oil, cotton and powdered milk and secondarily forage seed and lard.

President wanted Vassallo travel immediately Washington discuss proposal with appropriate authorities. However, Vassallo had persuaded him wisdom of preparing ground. He inquired whether he could receive this week preliminary reaction proposed trip and possibility successful negotiations so that he might plan go Washington January 2 at latest.

Vassallo said that only President, Minister Economy and himself were aware this approach being made to United States and they planned to keep it on same restricted basis.[4]

Sanders

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[4] In telegram 268 to Santiago, December 23, the Department instructed the Embassy as follows: "You may inform Vassallo that Department observing with sympathetic interest Chile's efforts find means combat inflation. We agree that P.L. 480 agreement would assist Chile in its stabilization efforts but nevertheless perceive no advantage his visiting U.S. at present since Embassy authorized proceed negotiate such agreement. You may state U.S. willing consider concrete proposals if Chileans desire modifications proposed agreement." (Department of State, Central Files, 411.2541/12–2355)

In telegram 363 from Santiago, December 26, Sanders reported that he had informed Carlos Vassallo that morning of the points made in telegram 268. Vassallo had replied that President Ibáñez was insistent that he go to Washington to present Chile's case regarding the P.L. 480 negotiations on an informal basis. (*Ibid.*, 411.2541/12–2655)

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385. Telegram From the Chargé in Chile (Sanders) to the Department of State[1]

Santiago, December 28, 1955—6 p.m.

370. From conversation with Vassallo reported Embtel 354 December 21[2] and from magnitude their request PL 480 assistance (Embtel 368 December 28[3]) it appears he has persuaded President and Minister Economy that there no possibility of effective and immediate help to Chile in easing impact proposed program combat inflation other than large increase PL 480 assistance. It apparent they look upon availability considerable assistance of this kind as playing

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[1] Source: Department of State, Central Files, 411.2541/12–2855. Confidential.

[2] *Supra.*

[3] Telegram 368 contained Chile's suggested modifications of the P.L. 480 program proposed by the United States. (Department of State, Central Files, 411.2541/12–2855)

important if not decisive part in government's ability to put program into effect.

They apparently convinced likewise that government's plan, approved by Klein–Saks mission (as Embassy informed by mission), and government's declared determination to carry through on it are sufficient guarantees to satisfy requirements we have mentioned as prior conditions our help and that legislative enactment and administrative implementation of all major elements plan should not be required as condition precedent at least PL 480 assistance. As indication firm intent government Vassallo told me President extremely pleased with prospects success price-wage bill and is determined to push ahead with program on broad front, including exchange rate liberalization recommended by Klein–Saks mission, and will if necessary obtain state of siege powers to accomplish objectives. Government's satisfaction over developments no doubt arises in part from fact it able persuade liberal party it has realistic comprehensive program, which was basic condition set by party for its support.

Vassallo made clear that in his own thinking Chile entering buyer's market in attempt obtain PL 480 assistance. In so many words he said United States urgently needs rid itself of these excess commodities and Chile desperately needs them to carry out anti-inflationary program. In response my reservations concerning "usual marketing" requirements PL 480, Vassallo said he aware requirements and felt sure they would present no difficulties in view expected reduced wheat harvest Chile and inability Argentina and perhaps other suppliers satisfy demand wheat and for other commodities.

Vassallo appears convinced that there are divisions within United States Government re disposal policies which favorable to Chile in obtaining help of magnitude desired.

Sanders

386. Telegram From the Secretary of State to the Embassy in Chile[1]

Washington, January 4, 1956—6:58 p.m.

279. FYI Preliminary conversations with Vassallo indicate importance Chileans attach to domestic political impact of early announcement that ample quantities of basic agricultural items are available to prevent shortages or price rises. Department favorably impressed this reasoning but wants Embassy comment by return cable before discussing with other interested agencies. In absence reasons to contrary Department disposed toward prompt sale maximum feasible quantities surplus commodities consistent with attainment above objectives and US desire not to disturb normal trade patterns but wants insure PL 480 program affords maximum incentive for adoption effective anti-inflation program. We can reach prompt accord on quantities to be sold and general terms of repayment. However urgently need Embassy advice whether agreement should be withheld until legislation finally adopted or announced before adoption as lever to obtain Senate approval. Department recalls unfortunate precedent of copper legislation but understands Chilean Senate must act this week on anti-inflation legislation. Department also considering asking for informal understanding that Chile make serious efforts eliminate commercial arrearages.

By including "usual marketing" (i.e. dollar sales) portion of deal in total to be announced, quantities of some commodities which might be furnished could approximate Chilean request. Embassy comment desired on Chilean capacity absorb following amounts without interfering normal marketings usual suppliers so far as they may be able to deliver. Edible oils—40,000 tons; cotton—more than 60,000 bales, 30,000 of which to be for dollars; wheat—150,000 tons, 40,000 of which to be for dollars; dried milk—20,000 tons; clover and alfalfa seed—5,000 tons each. End FYI.

Vassallo plans return Chile January 7.

Dulles

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[1] Source: Department of State, Central Files, 411.2541/1–456. Confidential; Niact. Drafted by Belton, cleared with the Department of Agriculture and in substance with the International Resources Division (IRD) of the Bureau of Economic Affairs, and approved by Bernbaum.

387. Telegram From the Chargé in Chile (Sanders) to the Department of State[1]

Santiago, January 5, 1956—11 a.m.

388. Deptel 279, January 4, niact.[2] In Embassy's view, proposed PL 480 program would be important stabilizing factor easing impact implementation government's projected anti-inflationary measures. Klein–Saks mission has expressed similar views to Embassy.

Senate yesterday approved "in general" by one vote margin wage-price control bill which is considered important element government's program. Expectation is that same margin will be maintained in final Senate voting next Tuesday, January 10. Since political positions re present bill have become fixed, it is difficult to see how announcement now of new PL 480 agreement would affect voting this particular legislation.

Although there of course no assurance anything we can do will keep government on present course, PL 480 assistance such as contemplated should encourage government proceed with other anti-inflationary measures by administrative action, much as credit control measures already taken, and by further legislative proposals. Government will be and is already under great pressures from both left and right sectors affected by anti-inflationary measures (e.g. CUTCH last night declared national strike starting Monday in initial move against price-wage bill). Political courage of a high order, heretofore lacking, will be required to withstand these pressures. PL 480 assistance could serve ease these pressures. Conversely, Embassy of view that refusal of United States to accede Chilean request by extending minimum economic assistance at this time such as available through PL 480 could have discouraging effect on government's determination proceed on hard anti-inflationary road.

By same token, such assistance could favorably influence voting in Congress on other parts government's program.

On foregoing reasoning, announcement PL 480 agreement should not be withheld pending further executive and legislative action. Government has announced that following approval wage-price bill it will press at this special session Congress for series of other anti-inflationary measures.

In view general lack understanding effects expanded and liberalized PL 480 assistance or prices and availability essential commodities, publicity, preferably by Chileans, concerning program would be required to achieve maximum political advantage.

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[1] Source: Department of State, Central Files, 411.2541/1–556. Confidential; Niact; Limited Distribution.

[2] *Supra.*

[Here follow the Embassy's specific and detailed comments regarding the Chilean economy's capacity to absorb purchases of edible oil, wheat, milk, and forage seeds.]

Sanders

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388. Letter From Joseph A. Silberstein of the Office of South American Affairs to the Chargé in Chile (Corrigan)[1]

Washington, February 1, 1956.

DEAR BOB: You may be interested to know what we have been doing in response to your letters to Mr. Holland of January 12, 17 and 23 (and to related letters from Mr. Lockett).[2]

Mr. Holland, as you have probably realized, has expressed great interest (to put it mildly) in taking all the steps to clear the way for such aid to Chile as their progress on their anti-inflationary program merits. He has given us direct orders to get things rolling.

We have had discussions with Jack Corbett of E, who frankly was dubious of the desirability of rushing into the exchange reform and was not very optimistic as to the chances of the Chileans getting anything in the way of stabilization fund assistance. Nevertheless he suggested a call on Southard, U.S. representative on the IMF Directorate. In between we had the benefit of a visit from Mr. Knoke of the Klein–Saks group, to which we invited a representative of Treasury, among others, and at which Knoke outlined the latest developments and explained the proposed exchange reform. Harley,[3] the Treasury man, also raised some sharp questions on the need for rushing the exchange reform, and suggested it might be better to concentrate first on internal reforms and see what can be done about slowing down the inflation. He left no doubt that Treasury would take a very dim view of a stabilization loan to Chile.

Our visit to Southard produced somewhat more positive results. He took a very skeptical line, in the light of Chile's past history, and indicated the Fund would take a hard, close look at the situation if approached by Chile. He explained also that a decision on Chile might be complicated by the possible bearing which action in the case of Chile might have on other applications. Nevertheless, we left with the impression that if a good case can be made he personally would probably support something in the way of IMF stabilization assistance. He did not, of course, commit himself in any way.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Chile. Confidential.

[2] Not found in Department of State files. Thomas H. Lockett was a member of the Klein–Saks mission to Chile.

[3] Charles R. Harley, Chief, Latin American Division, Office of International Finance, Treasury Department.

In any event, the Fund is definitely the first place for the Chileans to start looking, hence our telegram of January 30.[4] While we were there Southard verified that the Fund had some people who could get down to Chile in a hurry if the Chileans come up with a request.

At this point I would guess that a stabilization fund loan of the size the Chileans will want might require a joint IMF–U.S. Treasury operation, although it is not inconceivable that the amount the Chileans will actually need could be met by the Fund alone. Treasury will be much the harder of the two nuts to crack, if only because Treasury resources for such operations are by now very limited. Of course if the Fund decides in favor, the case for Treasury participation would be facilitated.

As I have already indicated, there has been some questioning both within and outside the Department as to the need for and desirability of rushing into the exchange reform. Doubt has also been raised about the proposed freely fluctuating rate. That is why it will be important for Chile to show an *economic* justification for rushing ahead *now* with the exchange reform, if indeed there is such justification, as well as for the type of program proposed.

We have already seen a few pieces of an economic case such as the importance for budget balancing purposes of the revenue to be derived from the exchange rate reform, and the usefulness of the proposed import deposit requirement in sopping up excess pesos let loose by the Government's inevitable borrowing at the Central Bank in the next few months.

Incidentally, you may be interested to know that Alex Rosenson, who is now in ARA, has been very active in all these discussions and of great help in explaining the Chilean situation.

Sincerely,

Joseph A. Silberstein[5]

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[4] In telegram 319, the Department informed the Embassy that preliminary discussions indicated that the IMF would be the logical place for Chile to begin exploring a possible stabilization loan for the proposed exchange reform. (Department of State, Central Files, 825.10/1–3056)

[5] Printed from a copy which bears this typed signature.

389. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Special Assistant in the Bureau of Inter-American Affairs (King)[1]

Washington, February 10, 1956.

SUBJECT

Documentation of Communists Attempt to Keep Chilean Economy from Improving

If the Chilean economic situation is improved substantially by the programs recommended by the Klein-Saks' mission and undertaken by the Government, we are going to have an excellent anti-Communist weapon.

From the beginning of the Klein-Saks' study the Communists have constantly attacked both the mission and those government officials who cooperated with it.

The result will be that a perfectly documented case history can be made to prove that the Communists fight all government moves which will actually strengthen the local economy. The Communists work resourcefully and with energy to weaken the economy of every country.

. . . USIA . . . should *immediately* begin documenting the propaganda exploitation of what appears to be rather well along in Chile. Please keep me advised on what you do on this.

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[1] Source: Department of State, ARA Files: Lot 58 D 749, Chile 1956. Secret.

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390. Telegram From the Secretary of State to the Embassy in Chile[1]

Washington, February 24, 1956—5:28 p.m.

355. Department extremely concerned by indications Embtel 472[2] Herrera considering possibility subsidize essential imports through penalty exchange rates or additional taxes on copper industry. Such discriminatory action by GOC would negate "new deal"

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[1] Source: Department of State, Central Files, 425.006/2–2156. Confidential; Priority. Drafted by Silberstein and approved by Holland.

[2] Dated February 21. (*Ibid.*)

copper law and mean GOC not keeping word which led Anaconda and Braden make recent new investments and Anaconda announce plan for further investments. Not overstatement to say most serious result would be discourage noticeable recent heightening private capital interest invest in Chile but also would affect considerations by US of such request as Chile may make for US aid.

If GOC believes will need to subsidize consumers of essential imports if exchange reform enacted and will need additional budgetary resources for that purpose, Embassy should urge that GOC seek non-discriminatory means to accomplish this.

Dulles

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391. Memorandum From the Director of the Office of South American Affairs (Bernbaum) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, February 29, 1956.

SUBJECT

Suggested ARA Position on Chilean Exchange Reform

We understand that Mr. Corbett will contact you in the morning prior to the NAC Staff Committee Meeting which is scheduled for 10:30. Mr. Corbett has been out all week but we believe the position outlined below to be consistent with the thinking in E.

1. We believe that the initiative Chile is now showing in seeking to overcome inflation, and the momentum its anti-inflationary program has achieved is worthy of our support. We therefore favor support of the Chilean Exchange Reform proposal now before the IMF. The IMF Executive Board will consider this proposal on March 2.

2. There are several reasons for earliest possible action on the proposal:

a) The psychological importance of following steps already taken with further effective action.

b) The Chilean Government's belief that it must take positive action now on the exchange system in order to hold together the small majority in the Congress which has supported its anti-inflationary policies so far. Important elements of this support represent groups which are not only restive due to the effects of credit controls recently imposed, but are those most outspoken in favor of exchange reform.

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[1] Source: Department of State, Central Files, 825.131/2–2956. Confidential. Drafted by Ernest V. Siracusa.

c) The Chilean Government's further belief that institution of the exchange reforms is a pre-requisite to Congressional support of proposed tax reforms and other parts of the stabilization program which, to be most effective, must be enacted as soon as possible.

3. Nevertheless, we recognize that approval of the exchange reform proposals will not of itself guarantee effective action on other aspects of the overall stabilization program, the importance of which has been emphasized by the IMF Mission report[2] as follows: *"The success of the exchange reform will depend on the vigor and persistence with which the Government and the Central Bank pursue the overall stabilization program".* We are concerned, therefore, with the need for assuring that the support we extend will have the most effective impact on the overall stabilization program. The points made hereafter in regard to restrictions placed on the use of financial support are made with this objective in mind.

4. Chile desires financial aid in connection with its exchange reform proposal although it has not yet formally requested such aid. Its need for such aid has been supported by the Klein–Saks group and has been mentioned in the IMF Mission report. Therefore, even though the matter formally before the NAC and the IMF at this time is solely that of the proposed exchange reform program, NAC, at least, will in formulating the U.S. position on the rate proposal also have to consider what position the U.S. will take if Chile formally raises the question of IMF and U.S. financial assistance early next week. For reasons cited in No. 1 above we also favor IMF and U.S. financial support (with appropriate safeguards) of the exchange reform proposal. We understand that Chile intends, formally, to request such support from the IMF and probably from the U.S. on March 5, assuming IMF approval of the reform proposals.

5. With regard to IMF financial support, we favor a standby loan or similar arrangement which would permit tight control of drawings and would put the IMF in a position to influence the Chilean Government to adopt and vigorously execute other stabilization measures on which the IMF Mission report says the success of the exchange reform is dependent.

6. If it is agreed that the U.S. should contribute the approximately $20 million in financial support for the exchange reform which Chile has indicated she will ask of us, in addition to the $37.5 million she hopes to get from the IMF and the approximately $17 million she hopes to get from private U.S. banks, the Treasury or the

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[2] Not further identified.

Export-Import Bank would be the available sources for such funds. Since any U.S. financial assistance extended for the purpose under consideration should be designed to induce Chile to enact the further measures necessary to the stabilization program and should be safeguarded against unwise utilization, such as an attempt to hold an unrealistic exchange rate, the adaptability to these conditions of the types of loans generally extended by Treasury or the Export-Import Bank would be an important factor.

7. We favor NAC instruction to the United States representative on the IMF to seek to have the IMF recommend to Chile that it apply the proposed export tax to all exports and not just to certain "exports", when the new free exchange rate approaches or reaches the rate now enjoyed by the export commodities which are to be exempt from the export tax, according to the proposal submitted by Chile. We do not believe, however, that as it is now projected, according to the IMF mission report, the proposed export tax is unduly discriminatory, or that we should make its elimination or broadening to affect all commodities a condition for our support of the proposed reform.

8. We must recognize that unless financial support follows IMF approval of the exchange reform proposal, Chile will not put the new system into effect. We have been informed, in fact, by the Chilean Embassy that Chile would rather not have the proposal considered, much less approved, unless there is a disposition to support it financially. We recommend, therefore, that the State Department representative on the NAC make these considerations clear to the NAC, so that the NAC will appreciate the effect its attitude could have on the overall Chilean stabilization effort.[3]

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[3] On March 1, the Staff Committee of the National Advisory Council on International Monetary and Financial Problems (NAC) met to discuss, among other matters, the proposed Chilean exchange system. According to the minutes of the meeting, Southard outlined the Chilean stabilization effort and the proposed exchange arrangements, including the proposed financial support recommended to the Chilean Government by the Klein–Saks mission. He described the proposal as a major effort which deserved support "even though it might not be completely successful." After a discussion of the proposal, the NAC Staff Committee agreed that it would be appropriate for Southard to support the proposed Chilean exchange reform in the IMF Executive Board, but not to imply that financial assistance would be forthcoming from the U.S. Government. (Department of State, NAC Files: Lot 60 D 137, Staff Committee Minutes) Corbett, Rosenson, Siracusa, and several others represented the Department of State during this meeting. In a memorandum to Holland, dated March 1, Siracusa summarized the results of the meeting. (*Ibid.*, ARA Files: Lot 59 D 73, Chile 1956, Credits (Economic))

392. Minutes of the 242d Meeting of the National Advisory Council on International Monetary and Financial Problems, Washington, March 6, 1956[1]

[PARTICIPANTS]

- Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
  - Mr. Andrew N. Overby
  - Mr. George H. Willis
  - Mr. Elting Arnold
  - Mr. Henry J. Bittermann
  - Mr. Charles R. Harley
- Mr. Herbert V. Prochnow, Department of State
  - Mr. Henry F. Holland
  - Mr. Jack C. Corbett
- Mr. Clarence I. Blau, Commerce Department
- Mr. Arthur W. Marget, Board of Governors, Federal Reserve System
- Mr. Walter Schaefer, International Cooperation Administration
  - Mr. Hale T. Shenefield
- Mr. Frank A. Southard, Jr., International Monetary Fund
- Mr. John S. Hooker, International Bank
- Mr. Samuel C. Waugh, Export-Import Bank
  - Mr. Vance Brand
  - Mr. Charles Shohan
- Mr. Oscar Zaglits, Department of Agriculture, Visitor
- Mr. Ralph W.E. Reid, Bureau of the Budget, Visitor
- Mr. Edmond C. Hutchinson, Bureau of the Budget, Visitor
- Col. George F. Parker, Department of Defense, Visitor
- Mr. C.D. Glendinning, Secretary
  - Mr. C.L. Callander, NAC Secretariat

1. Chilean Stabilization Program

The Council considered the stabilization program contemplated by Chile (see NAC Document No. 1908).[2] The Chairman[3] asked Mr. Southard to comment on the situation in the International Monetary Fund with respect to the Chilean program. Mr. Southard said that on March 2 the Fund Board of Executive Directors had considered the proposed Chilean stabilization program, covering both internal stabilization measures and exchange reform measures. The program had appealed to the Fund Board as the best Chilean stabilization effort ever undertaken, and the Board had unanimously approved it.[4] The exchange reform measures were understood to have been put into effect prior to March 5. These involved the consolidation of existing export and import exchange rates at a single fluctuating rate applicable to authorized trade transactions and to specified invisible transactions, in a banking market, and the carrying out of other transactions in a brokers' market. On March 5, the Fund had received a formal Chilean request for a stand-by arrangement to permit drawings up to $37.5 million as part of the $75 million stabilization fund that had been recommended to Chile by the Klein–Saks technical mission, which had been engaged in a study of Chile's economic and financial problems. Chile proposed that the stabilization fund would be used for operations only in the banking market and would not be operated counter to basic economic trends but merely to smooth out changes in the market.

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[1] Source: Department of State, NAC Files: Lot 60 D 137, Minutes. For National Advisory Council Use Only.

[2] Not printed. (*Ibid.*, Documents)

[3] Burgess, the Acting Chairman, was Under Secretary of the Treasury for Monetary Affairs.

[4] The Department reported the action of the IMF Executive Board to the Embassy in Santiago in telegram 378, March 2. (Department of State, Central Files, 825.131/3–256)

Mr. Southard continued that the Fund Board was scheduled to meet on March 9 to consider the draft stand-by arrangement which had been made available to the Council. He explained that the purpose of the detailed provisions in the draft Chilean agreement was to require drawings to be spaced in time and to give the Fund the right at appropriate intervals to call for reexamination and possibly to suspend drawings.

Mr. Southard expressed the view that Chile would accept the draft agreement and hoped that the Council would authorize him to support it in the Fund Board.

The Chairman reported that a group of United States commercial banks was prepared to make available $25 to $30 million, which would be a second line of reserve after the Fund stand-by arrangement and would require repayment of drawings at shorter term. These banking arrangements would constitute an unsecured line of credit to the Chilean Central Bank. He noted that if Chile obtained $35 million from the Fund and $25 to $30 million from United States banks, there would remain some $10 to $15 million to make up the $75 million desired by the Chileans. He indicated that the Treasury Department would be willing to negotiate a stabilization agreement, using the Exchange Stabilization Fund under appropriate conditions as a third line of reserve, to provide this balance of $10 to $15 million. The Treasury was impressed by this Chilean stabilization effort, especially since the Chilean Government had employed a mission of United States experts and was now endeavoring to follow the mission's recommendations. The Treasury also favored the step-by-step arrangements contemplated for the International Monetary Fund stand-by arrangement, and was also favorably impressed by the agreements recently reached between the Chilean Government and United States enterprises operating in Chile.

Mr. Prochnow stated that the Department of State supported the proposed Fund arrangements and the proposed United States-Chilean stabilization agreement. Mr. Holland commented that the present situation appeared to offer the best opportunity for stabilization in Chile in the foreseeable future.

Mr. Overby commented that the Chilean Government was to be commended for this effort, but cautioned that a large part of the stabilization program remained to be carried out by Chile and that substantial and difficult negotiations (with the International Monetary Fund, the United States banks, and the Treasury Department) would have to be completed before the desired stabilization fund could be created. He felt, therefore, that it was important that the Chilean representatives not receive premature assurances that the financial support would be forthcoming. He noted that these financial arrangements represented essentially an expression of faith in the intentions and performance of the Chilean Government.

Mr. Marget stated that the Federal Reserve Board of Governors supported the proposed arrangements. Mr. Blau[5] stated that the Department of Commerce also favored the arrangements.

Mr. Waugh expressed approval of the proposed action, and expressed satisfaction that the Export-Import Bank was not to be called on to participate directly in the support of the Chilean stabilization effort, since the Bank preferred to reserve its funds for loan projects expected to be proposed by Chile. He noted that the Bank had loans of about $75 million outstanding in Chile, and that Chile had a good record with respect to Export-Import Bank loans.

Mr. Schaefer[6] indicated that he favored the proposed action. Mr. Zaglits informed the Council that an agreement with Chile under Public Law 480 was about to be signed in the amount of $38 million, pursuant to which the peso equivalent of $28 million would be loaned to the Chilean Government.

The possible implications for the U.S. budget of the stabilization agreement and IMF operations were discussed in response to an inquiry by Mr. Reid.

The Chairman commented that the proposed stabilization agreement would be unusual in that it would not specify an exchange rate to be supported.

The following action was taken: (NAC Action No. 860)

"1. The National Advisory Council advises the U.S. Executive Director of the International Monetary Fund that it approves his favorable consideration in the Executive Board of the Fund of the

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[5] Assistant to the Director, Bureau of Foreign Commerce.

[6] Special Assistant to the Director of ICA for Finance.

Chilean Government's request for a 12 months stand-by arrangement permitting drawings up to $35 million.

2. The National Advisory Council approves favorable consideration by the U.S. Treasury Department of the Chilean Government's request for a United States-Chilean Stabilization Agreement in an amount of not more than $15 million, with a term of twelve months. It is understood that under the agreement a carrying charge of ¼ of 1 percent per annum would be applied against the undisbursed amount and that the interest rate would be either (a) 3½ percent during the first year that any drawing remained outstanding and 4½ percent thereafter or (b) 1 percent in excess of the discount rate of the Federal Reserve Bank of New York during the first year that any drawing remained outstanding and 2 percent in excess of such rate thereafter."[7]

[Here follows discussion of matters unrelated to Chile.]

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[7] On March 9, the IMF Executive Board approved a $35 million standby arrangement for Chile. The Department reported this development to the Embassy in Santiago in telegram 392, March 9. (Department of State, Central Files, 825.10/3–956)

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393. Editorial Note

On March 13, Ambassador Beaulac and Chilean Minister for Foreign Affairs Enrique O. Barbosa Baeza signed a new Public Law 480 agreement in Santiago. The agreement, which entered into force on June 2, provided for the sale of United States agricultural commodities to Chile valued at approximately $34.6 million. For text, see 7 UST 1007.

394. Letter From the Ambassador in Chile (Beaulac) to the Officer in Charge of West Coast Affairs (Belton)[1]

Santiago, March 14, 1956.

DEAR BILL: I have just seen the Department's telegram 355 of February 24[2] in which the Department expresses its extreme concern over the possibility of discriminations against the copper companies in connection with the new free fluctuating rate of exchange.

I will be interested in the background of this telegram since the companies are quite accustomed to making such arrangements with the Chilean Government, and since the idea of the Government's recouping a large part of the windfall that will accrue to the companies from the new exchange rate came from Klein–Saks, although we can be sure that the Government would have thought of it by itself.

The telegram sounds a little extreme to me in the light of the past relationship between the Chilean Government and the companies and because I understand that it is quite customary for a government to want to recoup part of the windfall profits that accrue as a result of a change in the exchange rate.

I am particularly interested in knowing whether any pressure was received from the companies in connection with the telegram.

It was fine to see you in Washington. So far everything seems to be pretty quiet down here, although we are naturally keeping our fingers crossed. It is so much better than we dared to anticipate a few months ago that we are greatly encouraged.

Sincerely yours,

Willard

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[1] Source: Department of State, Central Files, 425.006/2–1456. Confidential; Official–Informal.

[2] Document 390.

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395. Editorial Note

On April 13, Under Secretary of the Treasury W. Randolph Burgess and Chilean Ambassador Mario Rodriguez signed an exchange agreement in Washington "designed to assist Chile in its efforts toward achieving increased economic stability and freedom for trade and exchange transactions." The Treasury Agreement, which supplemented Chile's standby arrangement with the IMF and its credit agreements with several private banks in the United States, provided that Chilean authorities could if necessary request the United States Exchange Stabilization Fund to purchase Chilean pesos up to an amount equivalent to $10 million. This agreement was officially announced on April 15. The Department of State transmitted an advance text of the official press release announcing the agreement to the Embassy in telegram 452 to Santiago, April 13. (Department of State, Central Files, 825.131/4–1356) The press release is printed in *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1956* (Washington, 1957), page 220.

A detailed analysis of the Chilean exchange reform program, which became effective on April 16, is in *Current Economic Developments,* Issue No. 491, April 17, 1956, pages 11–14. (Department of State, *Current Economic Developments:* Lot 70 D 467)

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396. Memorandum From the Director of the Office of South American Affairs (Bernbaum) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, May 10, 1956.

SUBJECT

Recommendation that President Ibañez of Chile be invited to the United States in 1957

It is recommended that you put forward the name of President Carlos Ibañez del Campo of Chile to be invited to the United States in 1957 as Chief of State visitor from the Latin American area.

President Ibañez took office on November 3, 1952 for a six-year term. He has been personally friendly to the United States since the beginning of his term, belying indications during the electoral campaign that Ibañez could be expected to adopt anti-U.S. policies. The President has withstood pressures to expand Chile's trade with the Soviet bloc and he has been strongly outspoken in his criticism of international communism and communists. On the home front his government has been firm in dealing with Chile's communists, especially in the last year or so, even though he had been elected with communist and other extreme left-wing support.

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[1] Source: Department of State, Central Files, 725.11/5–1056. Secret. Drafted by Silberstein.

During his present term Ibañez has governed within the framework of the laws as the constitutional president of a truly democratic republic, in spite of his past history as a dictator in the 1920's, which led some to feel he might revert to his authoritarian tendencies.

The Ibañez administration, as now constituted, has been the first in years to reverse the tendency in Chile toward increasing state intervention in the economy, and has fostered important innovations to improve the treatment of the large U.S. investments in Chile. With the help of private U.S. economists, the administration is now pressing a comprehensive economic reform program designed to arrest the aggravated inflation from which Chile long has suffered.

The proposal to invite President Ibañez to the United States can be presented within our Government as:

1. A recognition of his position as Constitutional President of a true Western Hemisphere democracy;
2. An appreciation of the efforts his administration is making in improving the economic health and stability of Chile;
3. A recognition of his Government's and his own firm stand in opposition in international communism.

The proposal to invite President Ibañez should be conditioned on his Government's continuing to press forward with the economic reform program. Should this effort collapse, or change direction prior to the extending of the invitation, it would not be desirable to advance this proposal.

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397. Editorial Note

On July 11, Holland forwarded a memorandum to Dulles, entitled "Importance of Present United States Relations With Argentina, Brazil and Chile." The memorandum is printed as Document 214.

398. Memorandum of a Conversation, Embassy Residence, Panama City, July 23, 1956[1]

PRESENT

The President	President Ibañez
The Secretary of State	Foreign Minister Sainte Marie
Dr. Milton Eisenhower	Ambassador Mario Rodriguez
Asst Secy Holland	
Mr. Bernbaum	
Lt. Col. Walters	

The President opened the meeting by congratulating President Ibañez on making what had been perhaps the shortest speech of the previous day. He himself would have liked to have been the one that made the shortest speech. President Ibañez said that the President's speech had been much more interesting than his own.

General Ibañez said that first of all he would like to express to the President, to Secretary Dulles and to the Department of State his thanks for the assistance and comprehension that they had shown of Chile's problems. Mr. Holland had also been most helpful to them. In reply to a question by the President General Ibañez indicated that crops had not been too good, they had had a lot of rain which had damaged the crops but some had been saved nonetheless.

The Chilean President in reply to a question about a possible currency reform indicated that he was having a study made of this question. He felt that it was desirable to eliminate the large number of low denomination bills in circulation and said that the Chileans liked to have coins of 10, 20 or 50 centavos in their pocket. The President jokingly said that this was true of all peoples.

The Secretary spoke of the popularity in some parts of the U.S. of the "Cartwheel." President Ibañez said that this question was under study by experts and by the financial mission. He did not know whether it could be put into effect or not, nor did he know whether he could obtain congressional support for such a project.

President Eisenhower then congratulated the Chilean President on the vigor with which he was attempting to solve Chile's economic problems, and President Ibañez after expressing his thanks said that this was the only way that such problems could be handled. His task was made more difficult by communist infiltration, particularly among school teachers but that this problem was being dealt with firmly by the Government.

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[1] Source: Eisenhower Library, Whitman File, International File. Secret. No drafting officer was indicated on the source text. President Eisenhower was in Panamá for the Meeting of the Presidents of the American Republics. For documentation on this subject, see vol. VI, Documents 109 ff.

President Eisenhower recalled his personal experience while he had been President of Columbia University. He had looked into the matter of alleged communist inclinations on the part of educators and had found that in many cases it was not so much communistic inclinations as resentment of the economic and social situation in which they found themselves. He also spoke of the need for parents to take a direct interest in the teachers who taught their children, to receive them socially and to get to know them.

President Ibañez said that Chile had adopted useful measures in this field and that teachers were among the best paid government workers in Chile. He said that the Government was dealing with subversion by firm but democratic, constitutional and legal means. President Eisenhower said that this was the only possible way to handle this question without falling into the same class as the communists.

General Ibañez then spoke of a communist professor in the Catholic University who had infiltrated his way into this otherwise very anti-communist institution. Subsequent investigation had shown that this man was in fact a communist courier.

The President then said that he had scant patience with those who were anxious to force the Chinese communists into the United Nations while they were obviously helping the communist world conspiracy and were still under condemnation as aggressors by the United Nations, were still holding prisoners and spreading hostile propaganda throughout the world. He did not feel that they should be allowed to boast that they had "shot their way" into the United Nations. President Ibañez then said that Chile fully supported the U.S. position on this issue and opposed the admission of Communist China into the United Nations where they would only create additional difficulties.

President Ibañez said that there was one additional matter to which he would like to draw the President's attention. This was on matters relating to defense. Chile had received a small amount of help and this equipment was all concentrated in Antofagasta. Chile's overall defense position was extremely bad and he would like to have at least the air force in an adequate position even if this were to be at the expense of something else, even if they had to pay for them. They had 4000 kilometres of coast line and an adequate air force was essential. They did not want a great deal—some fighters—some bombers, and facilities for training personnel. Equipment was useless without properly trained personnel.

The President said that this was the first that he had heard of this problem but that he would have it looked into. He asked the Secretary of State to look into this matter with the Department of Defense, and the Secretary said that he would.

President Ibañez again expressed his satisfaction at seeing the President in such good health.

The Secretary of State then said how happy and cordial our relations were with the Chilean Ambassador in Washington. President Ibañez expressed his satisfaction at hearing this and said that the same was true with Ambassador Lyon in Santiago. He then said that he would be very happy to have his picture taken with President Eisenhower and the meeting was concluded.

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399. Editorial Note

Assistant Secretary Holland, accompanied by Maurice Bernbaum, visited Chile August 1–2 as part of a larger trip to several Latin American countries. On August 2, Holland met with Oscar Herrera regarding economic matters. During their talk, Herrera said that he was being attacked in Chile because of the difficulties which his anti-inflation program imposed on many sectors of the economy and pointed out that he needed some outside evidence of the results of his program to help still this criticism. He asked Holland to help him get prompt action from the IBRD on pending loan requests for coal and electric power projects. A memorandum of that conversation, drafted on August 10 by William Belton is in Department of State, Santiago Embassy Files: Lot 64 F 87, Economic Matters—General.

In telegram 66 from Santiago, August 2, Holland briefly noted the gist of that and other conversations which he had during his stay in Chile. "Herrera under strong attack from local sectors whose economic interests prejudiced by credit restrictions and other austerity features government's anti-inflationary program," the telegram stated. "My conference government, Embassy and Lockett persuade me government needs demonstrate some accomplishment in field foreign aid in order withstand adverse pressure." He recommended strongly that the Department urge the IBRD to announce the authorization of the coal mine loans to Chile and that the International Cooperation Administration approve Chile's requests for Public Law 480 loan projects as soon as possible. (*Ibid.,* Central Files, 825.00/8–256)

In despatch 100 from Santiago, August 3, the Embassy reported on the results of the Holland–Bernbaum visit. "Mr. Holland's visit was very timely," it commented in part. "There had been an almost miraculous transformation since his last visit. The favorable turn of events had vindicated the United States Government's view that, while the United States was genuinely disposed to help Chile, the main responsibility for lifting the country out of the mire was Chile's. The visit afforded a splendid opportunity to emphasize the congratulatory attitude in responsible sectors abroad as a result of Chile's having taken effective steps to face up to her problems. It was a good opportunity also for Mr. Holland to buoy up Minister Herrera and to encourage the Government to stay on the right, albeit somewhat rocky, road." (*Ibid.,* 725.00(W)/8–356)

On November 1, the IBRD approved a $15 million loan to Chile for the development of electric power. For additional information on the loan agreement, see International Bank for Reconstruction and Development, *Twelfth Annual Report, 1956–1957* (Washington, 1957).

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400. Memorandum of a Conversation, Santiago, November 14, 1956[1]

PARTICIPANTS

The President of Chile
The Ambassador
Vance Brand, Director, Export-Import Bank

SUBJECT

Conditions in Chile in General

After an exchange of pleasantries in which Brand indicated his pleasure in being in Chile and the President indicated how pleased he was to have him here, Mr. Brand explained that the Export-Import Bank has been interested in Chile for a long time. He said that as Chile was a good client of the Bank's and had received a number of loans from the Bank, particularly the large one to CAP,[2] the officials of the Bank liked to come and visit their good clients and to enjoy the famous hospitality of Chile. At the very moment Mr. Brand said that his engineer was in Concepción visiting the

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[1] Source: Department of State, Santiago Embassy Files: Lot 64 F 87, Economic Matters—General. Confidential. Drafted by Lyon.

[2] On February 2, 1956, the Export-Import Bank authorized a $3.55 million loan to *Cia. de Acero del Pacifico, S.A.* (CAP) in order to help develop a fully integrated steel mill at Huachipato, Chile. For additional information on this and other Bank loans to Chile, see Export-Import Bank of Washington, *Report to the Congress for the Period July–December 1956* (Washington, Government Printing Office, 1957), p. 42.

Huachipato plant with respect to a further application for a loan made to the Bank.

Mr. Brand then said that the Bank had been most encouraged by the first strong steps which the President and his Government had taken to control inflation and he hoped that the Government would continue to follow the same line and get the operation "back on the tracks".

The President indicated that it was his firm intention of doing so, but that the road was a most difficult one. The President said there were two difficulties in Chile—social and political. When he took over office after the Radicals who had been in power for sixteen years, the Radicals had been granting labor's every request. As a result nobody wanted to work, and there were strikes about everything. They would strike on the slightest pretension. However, after several major strikes which the Government had handled firmly, this constant threat of strikes had been eliminated and the social situation was under fairly good control.

The political one, however, was different, and Chile was like France in that there were far too many political parties.

Mr. Brand interjected at this juncture that there was one large difference. Chile had at its head a strong President, President Ibáñez, in whom the people had faith.

The President said yes that in spite of everything the people still had faith in him. However, there was far too much "politicing". Congress took years debating laws that should have been passed in a few months. There were delays about all sorts of things. Referring specifically to the anti-inflation policy, he said that he had received a letter accusing him of deviating from his anti-inflation program. Actually he believed that the opposition tried to create the impression that he was deviating. He replied to this letter and made his reply public. He answered point by point the criticisms made and proved that he was maintaining his anti-inflation policy. He said that he had every intention of following it through to the end. It was Chile's only hope. This published reply had had a good effect, he felt. Moreover, he had recently authorized Prescott Carter to appear before the Budget Committee of the Congress. He authorized Carter to tell everything since he felt that there should be no secrets from the people with regard to what the Klein–Saks Mission was trying to do. The people deserved this.

The President said that this had had the worst possible results. The political parties which had been supporting the plan said that Carter had been far too frank and they had come to the President and said that he should dismiss the Minister of Hacienda[3] for having authorized Carter to talk as frankly as he had. The President told them that it was not the Minister of Hacienda who had so authorized Carter. It was he, the President, himself who had authorized him.

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[3] Reference is presumably to the Minister of Finance, Eduardo Urzúa Merino.

The President did feel, however, that in spite of all this rumpus that had been created the exposition had made a good impression particularly on those opposed to the plan and there were indications that certain elements of the parties in opposition were leaning now towards favoring the plan. Also the exposition had had a good effect throughout the country.

At this juncture Mr. Brand said that he was glad to hear the President say that he was determined to go forward with his anti-inflationary campaign, as this was exactly what the bank hoped he would do. He then asked the President if the latter intended to curtail dollar purchases by Chile in the future. The President did not answer quickly. After some little thought he replied that he had always been in favor of Chile's commerce being with its continental neighbors both in respect to sales and purchases. By continental he also included the United States. The President said that he favored this policy since he feared that Chile would be cut off from European markets in times of war. No, the President said, he did not contemplate reducing dollar purchases.

Mr. Brand then said that he hoped the President appreciated with respect to credits that the Bank felt that too much credit was just as bad for Chile as too little credit. For example, the Bank would not consider it advisable at this juncture to lend Chile money for the purchase of agricultural machinery on a short two to three year basis. He mentioned two to three years, Mr. Brand said, for it was their custom to limit the loans more or less to the length of the life of the equipment offered. In the case of tractors, this was two or three years.

Mr. Brand continued that at a later date when further anti-inflationary steps had been taken, it might be possible to make these short term loans. To this the President replied that he did not want short term funds for Chile, because with the fluctuation of the value of copper, Chile could not pay in a short time.

The President also said that what he was particularly interested in was the bank's help in his agricultural program which required new roads, new railroad equipment, new bridge equipment and new port facilities. These communication facilities were particularly needed in Chile.

The conversation was extremely pleasant and friendly, and the President was talkative. However, after making his declarations earlier in the conversation about his intention of continuing the anti-inflation policy, either by intent or perhaps he did not get the reference, the President did not pick up Mr. Brand's remark about future credits coming available for agricultural equipment only if further anti-inflationary steps are taken.

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401. Memorandum From the Special Assistant to the Under Secretary of State for Mutual Security Affairs (Barnes) to the Deputy Director for Program and Planning, International Cooperation Administration (Ohly)[1]

Washington, December 6, 1956.

SUBJECT

Development of Naval Base in Chile

This represents a belated reply to your memorandum of July 19[2] in which you requested the views of the Department of State on a proposal by the Department of Defense for United States support in establishing a naval base at Mejillones, Chile. I also refer to the proposed FY 1958 military assistance program for Chile in which the Military Assistance Advisory Group to Chile recommended assistance to the Chilean naval base at Talcahuano.

In our view the economic situation in Chile is such that it would not be desirable to encourage the Chilean Government to expend funds for the development of a new naval base. The inability of the Chilean Government to devote any substantial resources of their own to such a project is evidenced by the difficulty it is experiencing in maintaining the present naval base at Talcahuano. If any United States assistance is to be provided, we consider that it should be directed toward assisting the Chilean Navy in reorganizing and improving the existing naval base at Talcahuano.

We are not aware of any political factors which would suggest the desirability of providing assistance to Chile to develop a new naval base at Mejillones.

Robert G. Barnes[3]

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[1] Source: Department of State, Central Files, 711.56325/11–656. Secret. Drafted by Sayre and Barnes. A copy of this memorandum was sent to McGuire.

[2] Not found in Department of State files.

[3] Printed from a copy which bears this typed signature.

402. Telegram From the Ambassador in Chile (Lyon) to the Department of State[1]

Santiago, January 5, 1957—1 p.m.

346. Upon my return Chile[2] I find psychological atmosphere regarding successful pursuit of anti-inflationary program much improved. Although fundamental problems remain, and there was in 1956 around 40 percent rise in cost of living, which in other countries would be disastrous, there is feeling here that much progress has been made. In comparison with around 90 percent rise for previous year this is true.

There continues to be clearly numerous weak spots such as large government deficit, rather serious foreign exchange position, more than normal unemployment, especially in the construction field, President's irascibility and unpredictability, and uncertainty over outcome March elections. But inflation appears definitely retarded, the copper picture is favorable, foreign exchange situation is considered manageable, and degree unemployment not excessive in context inevitable adjustments economy attendant first phase stabilization program.

Outlook elections will not return to Congress majority inalterably opposed government's program. Financing deficit is major economic problem facing government and calls for new taxes and increased administrative economies. If wage increases kept reasonable, and there is reason to hope they will be, and government workers wages financed by new taxes, deficit financing may be avoided and cost living increase in 1957 can probably be restricted to about half of 1956.

This estimate of course presupposes continuation government's determination hew anti-inflationary line, continued relative passivity labor, and favorable outcome elections.

In brief picture, while far from being as bright as one would like, is considerably better than might have been expected following slippage several months ago, plus pre-election attitudes and atmosphere of today.

Thus 1956 closes with feeling that considerable progress has been made and general belief that the line will be fairly well held until March election, and that after that further progress can be made.

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[1] Source: Department of State, Central Files, 825.00/1–557. Limited Official Use. Cecil B. Lyon was appointed Ambassador to Chile on May 10, 1956; he presented his credentials to the Chilean Government on June 15.

[2] Lyon had been in the United States for home leave, November 18–December 28, 1956.

Lyon

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403. Telegram From the Ambassador in Chile (Lyon) to the Department of State[1]

Santiago, February 21, 1957—11 a.m.

436. Reference proposal invite President Ibanez visit US. Embassy considers important and timely Ibanez now be invited. He has been surprisingly and gratifyingly unwavering in anti-inflationary fight, and invitation would constitute our endorsement and support Chile's action this program which can serve as example Latin America and rest world. Invitation should also assure continuance program after elections and would give lift to Chile's morale which needed this juncture due to decline copper price, difficult nitrate situation and general political picture. It would also constitute valuable psychological counter frequent charges here and other American Republics that US more sympathetic hemisphere dictatorships than to democracies.[2]

Lyon

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[1] Source: Department of State, Central Files, 725.11/2–2157. Confidential.

[2] In telegram 428 to Santiago, March 7, the Department informed Lyon that an invitation to Ibáñez was under consideration, but that a decision was not expected before the middle of March. (*Ibid.*)

404. Memorandum of a Conversation, Department of State, Washington, April 3, 1957[1]

SUBJECT

Call on the Secretary of State by the Chilean Ambassador

PARTICIPANTS

Secretary of State
His Excellency Senor Mariano Puga Vega, Ambassador of Chile
Wiley T. Buchanan, Jr.

The Chilean Ambassador requested an appointment to pay a courtesy call on the Secretary, inasmuch as the Secretary was at SEATO[2] when the Ambassador arrived and presented his credentials. He had called on the Acting Secretary of State, Mr. Herter, but had not yet met the Secretary. The Secretary granted an appointment on April 3rd for this purpose. Between the time the appointment was set up and the call was made, the riots occurred in Santiago, Chile.[3]

During what had started out to be a courtesy call, the Ambassador began to speak of conditions in Chile which had precipitated the riots which occurred yesterday, during last night and some minor disturbances today. The Ambassador stated that, in his opinion, the riots were caused by the drastic steps taken in his country to curtail uncontrollable inflation. The Ambassador further stated that "when the horse kicks, it's often because he is tired and over-worked and does not necessarily mean that he is vicious."

He made a plea for a "financial injection" to aid his country during this crisis and stated to the Secretary that he hoped his plea would be sympathetically heard by the proper sources and that financial assistance would be rendered. The Secretary assured the Ambassador that his comments would be most sympathetically heard, but that he could not say what action would be taken.

Ambassador Puga also made certain remarks which do not require elaboration, such as Chile respects and treasures the right of private enterprise; approximately 25 per cent of the money earned in Chile from copper and nitrates is not returned to Chile, but is capital taken out of the country. He considered this to be one of the major factors in the unstable condition and inflationary situation in Chile today. Sugar, which had once been subsidized, (and which subsidization he did not approve) is no longer subsidized. Sugar is now so high-priced that the average person is not able to purchase it. The Government allowed wage increases at the same time so that both wages and the prices of commodities were rising constantly. This he did not consider to be a good policy.[4]

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[1] Source: Department of State, Central Files, 611.25/4–357. Confidential. Drafted by Buchanan, Chief of Protocol, on April 5.

[2] Dulles was in Canberra for the third meeting of the Council of Ministers of the Southeast Asia Treaty Organization (SEATO), March 11–13.

[3] The Embassy reported on the disorders in Chile in despatch 1030 from Santiago, April 5. (Department of State, Central Files, 725.00/4–557) In despatch 1060 from Santiago, April 11, the Embassy described and analyzed the background of the disturbances. (*Ibid.*, 725.00/4–1157)

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[4] In telegram 487 to Santiago, April 5, the Department informed the Embassy of the gist of this conversation. It noted that Dulles had strongly urged that Chile formulate long-term plans based on recognized economic principles rather than short-term resolution of problems. The Department suggested that the Embassy take the same line. (*Ibid.*, 825.10/4–557)

A detailed analysis of the serious economic difficulties facing Chile is in *Current Economic Developments,* Issue No. 514, March 5, 1957, pp. 26–29. (*Ibid., Current Economic Developments:* Lot 70 D 467)

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405. Telegram From the Secretary of State to the Embassy in Chile[1]

Washington, April 5, 1957—7:33 p.m.

489. Embtel 546.[2] Dept sympathetic Chilean problems and cognizant US stake in stabilization program. Has instituted studies evaluate current political-economic situation. For this purpose would be useful have soonest Embassy's appraisal nature Chilean problems and possible need for additional outside help. Does Embassy believe such help substantively or psychologically essential to continuance

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[1] Source: Department of State, Central Files, 825.10/4–557. Confidential. Drafted by Silberstein and John Q. Blodgett of ED, cleared with ED and REA, and approved by Bernbaum.

[2] In telegram 546, April 4, Lyon reported a discussion he had that afternoon with Admiral Juan Francisco O'Ryan, Chilean Minister of Defense and Acting Foreign Minister. O'Ryan referred to the desperate fiscal situation of his government and asked if it would be possible for the Chilean Government to obtain a loan of about $50 million from the United States. Lyon replied that it would be extremely difficult, but promised to refer the matter to Washington. Lyon observed to the Department that this request was vague. He pointed out, however, that he believed it was the first in a campaign of appeals which Chile would initiate and suggested that the Department consider what action it was prepared to take. He concluded:

"May I therefore ask Department explore problem together with banks, Klein-Saks, other Washington officials, bearing in mind that banks stimulated Chile to undertake anti-inflation battle and that it is common knowledge that we have backed Klein-Saks mission. Consequently reputations United States and banks as well as that of the mission would suffer should anti-inflation fight fail." (*Ibid.*, 725.00/4–457) stabilization program (and likely make effective contribution toward solution or relief Chile's problems)?

Specifically require, in addition to what already reported, Embassy's appraisal (1) cost of living increases since January 1, 1956 and prospects for balance of 1957, (2) extent decline real consumption of working classes, (3) groups wage earners and producers most adversely affected, (4) Government's current fiscal situation in some detail and prospects balance calendar 1957, (5) programs which might be undertaken by GoC meet specific political, economic and social stresses if additional (a) peso resources or (b) foreign exchange resources were available.

What are latest estimates gold and foreign exchange holdings and prospective earnings for balance of 1957? What expenditures anticipated against these earnings for public and private sectors? Under what circumstances does GoC contemplate drawings on stabilization credit?

In light recent disturbances request Embassy's appraisal pressures to be expected break or revise present wage ceilings.

While you may inform GoC that US studying Chilean situation sympathetically, should avoid giving impression US has reached any decision re ability or willingness extend additional aid. Also might indicate outside aid for financing peso needs normally impracticable, extremely difficult and least likely be arranged. Dept commends your caution with Acting Foreign Minister.[3]

Dulles

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[3] In telegram 561 from Santiago, April 8, Lyon informed the Department that the specific information requested in telegram 489 was in preparation and would be forwarded as soon as possible. (*Ibid.*, 825.10/4–857)

406. Telegram From the Secretary of State to the Embassy in Chile[1]

Washington, April 8, 1957—7:32 p.m.

493. Department and Defense appreciate GOC concern security Santiago area your 552[2] and natural desire do all possible forestall threat renewed uprisings. Department also concerned implications this situation for stabilization program and has already manifested its interest our 489[3] doing all possible give moral and if necessary and feasible material support insure its success. However GOC request introduces new element with implication possible involvement domestic political struggle.

Altered concept Chile's hemispheric defense task deemphasizes without eliminating external missions but in any case does not envisage utilization MAP equipment domestic struggles unless clearly linked Communist threat as contemplated Caracas resolution.[4] Breach this principle could (1) establish undesirable precedent inviting other LA requests less deserving of sympathy (2) provide target for propaganda exploitation as instance use US arms suppress popular movement.

Location unit for training purposes decision GOC. FYI US does not favor transfer unit at this time to new training location. End FYI. US unable agree use equipment for maintenance internal security absence satisfactory evidence Communist or Communist-influenced threat overthrow Government. Latest . . . reports do not indicate this to be case. Unless Embassy believes reasonably satisfactory evidence such threat exists, recommend you dissuade GOC from pressing request. At your discretion you may indicate US prepared supply on reimbursable basis anti-riot equipment.

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[1] Source: Department of State, Central Files, 725.5-MSP/4–657. Secret; Niact. Drafted by Bernbaum, Silberstein, and Frank J. Devine of the Office of South American Affairs; approved by Rubottom.

[2] In telegram 552, April 6, the Embassy informed the Department that the Military Assistance Advisory Group (MAAG) in Chile had transmitted to the Department of Defense that day a request by the Chilean Army for U.S. concurrence in moving approximately half the equipment of its MAP-supported tank squadron from Antofagasta to Santiago in order to improve internal security of the Santiago area where the equipment was antiquated and inadequate. Lyon urged the immediate approval of this request in order to avoid delay of the shipment. (*Ibid.*, 725.5-MSP/4–657)

[3] *Supra.*

[4] Apparent reference to Resolution XCIII, titled "Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism," approved on March 28, 1954, at the Tenth Inter-American Conference which met at Caracas, March 1–28, 1954. For text of the resolution, see *Tenth Inter-American Conference: Report of the Delegation of the United States of America with Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 156–158. For documentation regarding the conference, see *Foreign Relations*, 1952–1954, volume IV, pp. 264 ff.

Dulles

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407. Telegram From the Ambassador in Chile (Lyon) to the Department of State[1]

Santiago, April 9, 1957—7 p.m.

565. Department telegram 493.[2] Called on Acting Foreign Minister (Minister Defense) today and conveyed to him gist Department's 487[3] emphasizing US good will this matter. Foreign Minister expressed appreciation and said he would convey our ideas to Ministers and President with view formulating long-range plans. I suggested that Carter of Klein–Saks mission who is due back here end this week should be very helpful this connection.

I then explained our inability comply with Chilean Army's request to transfer certain MAP equipment from Antofagasta to Santiago area explaining points 1 and 2 set forth paragraph 2 Department's 493.

Also said we prepared supply on reimbursable basis anti-riot equipment. Likewise pointed out location unit for training purposes decision GOC but in my opinion no change should be made for at least several months.

Acting Foreign Minister received this information extremely well stating he entirely understood our position and would inform Commandant Army and instruct him make no changes.

He added he had no doubt of government's eventual success in overcoming present difficulties and defeating Communist plans. In answer my remark that armored equipment not necessary this end he said presence of such equipment here would cause Communist collapse.

I asked whether government had been considering means for dealing basic discontent, i.e., poverty of masses of people. Foreign Minister said government's entire anti-inflation plan aimed stabilizing Chilean currency was for benefit of people.

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[1] Source: Department of State, Central Files, 725.5-MSP/4-957. Secret; Priority.

[2] *Supra.*

[3] See footnote 4, Document 404.

I urged, as I have frequently in the past not only on Acting Foreign Minister but on other high Chilean officials, that adequate explanation of this be got across to people which to date government has failed miserably to do.

Acting Foreign Minister said government planning radio campaign this end.

Embassy recognizes problems use MAP units could create and in view progressive normalcy Santiago urgency transfer has abated. However, no question in minds Embassy . . . that Communists played very important part last week's disorders and while they may have hoped overthrow Ibanez regime as GOC now claims, find it hard believe Communists really considered they possessed potential to do this although PSP may have thought it could.

Lyon

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408. Telegram From the Ambassador in Chile (Lyon) to the Department of State[1]

Santiago, April 12, 1957—3 p.m.

579. [Here follows the first part of this telegram containing the Embassy's response to the questions raised in Document 405.]

Deptel 489. Possible United States assistance to assure continuance stabilization program should be considered from two angles.

First is government's potential need for assistance on budget deficit caused by fall copper prices coupled with unforeseen expenditures such as unbudgeted sugar subsidy. If no other alternatives practicable deficit would be met by printing press financing. Potential wage increase pressure, which will increase in geometric proportion with further price rises, also has important bearing this problem. So far GOC consideration form United States help might take limited to balance of payments loans mentioned Part I this telegram. Exchange would be sold for pesos to permit continuance imports at rate anticipated prior copper price drop at same time yielding additional customs revenues. Although assistance this nature may become essential before end of year, Embassy fears if it came now it might relieve pressure on government to such extent that fight for increased progressive taxes and government economy would not be vigorously pursued. For this reason Embassy prefers some short-term remedy such as in last resort suggested copper company advance exchange sales which would keep heat on government.

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[1] Source: Department of State, Central Files, 825.10/11–1257. Confidential.

Second aspect of situation presents much greater problem. It involves growing discontent, crystalized by last week's events, among working classes, with price rises uncompensated by wage adjustments. Embassy believes it is essential to long-range maintenance of program that its success be generally evident before the 1958 presidential elections and that public by that time accept it as beneficial to country at least, if not to all individuals. Otherwise new government more apt to be wrong kind, but in any case will find itself politically obliged reverse many policies and inflation will start again.

It is difficult task to get Ibanez to recognize danger to program of its not enjoying broad public support. He has consistently rejected suggestions for badly needed improvement in public relations aspect, and in conversation yesterday with Klein–Saks, he revealed total lack comprehension basis for popular discontent. Nevertheless, Embassy believes it may well be psychologically essential that government start immediately some large scale dramatic undertaking which will tend to compensate worker for squeeze he is undergoing, or at least divert his attention from it.

Embassy actively considering various possible programs which might be quickly accepted by Chilean Government and which could have dramatic and helpful impact on most discontented sector populace. Large scale housing project seems likely have largest number beneficial effects, including elimination slums, reemployment in construction industry, and reduction discontent among sector populace most susceptible Communist influence and anti-stabilization program attitudes. Klein–Saks enthusiastic about idea and not concerned possible inflationary effect. USOM presently has very small self-help program underway. Prompt technical assistance and financing for immediate major expansion would be essential requirement. We recognize numerous problems involved such undertaking but believe this type effort is the kind most needed. Although it might be difficult, and subsequent investigation might prove it undesirable to change distribution PL 480 loan funds, fact program for their expenditure still awaiting congressional approval presents possible source financing.

Because lack ability average family feed itself properly under present economic stresses believed to be greater problem than generally realized, we are exploring possibility increasing availability food at lowest possible prices through expanded cooperative movement, stressing trade union outlets. Would appreciate Department's comments on possibility some Title III PL 480 contributions for such a program.

All above without benefit views Carter Klein–Saks, who due tomorrow, presumably with latest views US Government, Klein–Saks and Puga.

Lyon

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409. Memorandum of a Conversation, Department of State, Washington, April 16, 1957[1]

SUBJECT

Chile's Interest in Dollar Credits

PARTICIPANTS

His Excellency Sr. Mariano Puga—Ambassador of Chile
Mr. Rubottom—ARA
Mr. Bernbaum—OSA
Mr. Devine—OSA/W

Ambassador Puga thanked Mr. Rubottom for the very helpful statement issued by the Department last Friday.[2] He said that its words of support and encouragement to Chile were well-chosen and had been very well-received in his country. *"El Mercurio"*, in particular, had commented very favorably upon it.

Ambassador Puga then spoke at some length upon another matter. As the conversation closed and the Ambassador prepared to leave, Mr. Rubottom said that he would like to take the opportunity to discuss an economic matter. He referred to Chile's expressions of interest in obtaining a $40 million loan. Mr. Rubottom said that as Ambassador Puga had probably recognized, the State Department was merely one part of a family in Washington whose members were concerned with matters of finance and international credits. He mentioned the Treasury, Export-Import Bank, IBRD, and IMF as other members of this general community. He commented that representatives of all these agencies have been following developments in Chile and had evolved certain long-range plans involving rather important dollar credits. These people were properly concerned over the recent disorders and have since been studying Chile's case almost continuously. Mr. Rubottom said, however, that there seems to be some feeling among members of the group that Chile itself may not be pursuing the course suited to its own best interests. Preoccupation with the budget-balancing or balance-of-payments loan may even be somewhat prejudicial to Chile's long-term developmental program.

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[1] Source: Department of State, Central Files, 825.10/4–1657. Confidential. Drafted by Frank J. Devine of the Office of South American Affairs.

[2] On April 12, Lincoln White, Acting Chief of the News Division, read a statement to the press expressing the deep interest of the United States in the success of Chile's stabilization effort. The text of the statement is printed in Department of State *Bulletin*, May 13, 1957, p. 773.

Ambassador Puga asked how this could be. He stressed the very real emergency facing his Government and said that this might be greater than the State Department realized. He emphasized the current need for emergency credits and said that these were—and should be considered—separate and distinct from contemplated credits of a developmental character. Mr. Rubottom said that they could not be separated completely. He pointed to the inevitable effect of any loans—emergency or otherwise—upon Chile's credit capacity and future ability to repay. Ambassador Puga replied that no matter how good risks Huachipato, ENDESA, Chile's nitrate industry, and other loan recipients might appear, there could be no better guarantor of credit repayment than a healthy balance of payment. The emergency loan now sought would directly benefit and strengthen Chile's balance of payments.

The Ambassador went on to point out that there existed a precedent for such a balance-of-payments loan. He said that in 1949 the United States had loaned Chile US$ 25 million for this purpose.[3] Only US$ 23 million of this amount had actually been drawn upon, and in the eight years since then some US$ 13 million had been repaid. He said that a loan now of US$ 40 million repayable over ten years would not be an undue burden upon Chile's capacity to repay. Ambassador Puga said that the dollars would benefit Chile's balance of payments and the pesos arising therefrom would go into a large-scale housing project. The latter would have enormous social, political, and economic benefit. It would win the support of the working classes and more than pay for itself in greatly increased productivity. Mr. Bernbaum suggested that it might be inflationary by creating increased purchasing power and increased demand for goods. The Ambassador said that this could be controlled.

Ambassador Puga said that the same Klein–Saks now operating in Chile had faced the problem of subsidies in Peru. There it had eliminated subsidies and at the same time recommended a 25% increase in wages. In Chile, when eliminating subsidies, Klein–Saks tried to maintain or even cut wages. He said that this generated very strong popular resistance. Some way had to be found to continue the subsidies, and the US$ 40 million would make this possible. Mr.

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[3] For documentation on this subject, see *Foreign Relations*, 1949, vol. II, pp. 588 ff.

Bernbaum asked what would happen after the US$ 40 millions were used up. The Ambassador said that something had to be done so that the Government would find it possible to continue with the stabilization program. Mr. Rubottom said that while some mistakes might have been made in the past, the progress achieved under the program certainly warranted going ahead with it. He said that speaking frankly and as a friend of Chile he merely wished to call to the Ambassador's attention a feeling in some quarters that a large emergency loan might not be the best solution under present circumstances. The Ambassador said that he appreciated Mr. Rubottom's frank and well-intentioned statements. He reiterated his conviction that the situation in Chile was more serious than was realized. In closing, he pointed out that developmental loans were all to the good but that they brought Chile capital goods rather than the cash in hand which was needed at the moment.

After leaving Mr. Rubottom's office, Ambassador Puga invited Mr. Bernbaum's comments upon the conversation just completed. Mr. Bernbaum suggested that Chile might not be making the best case for itself. By emphasizing immediate emergency loans in many quarters it might be prejudicing its own case. He said that the State Department tended to be in the position of Chile's advocate. Eventually it might have to argue for or defend certain credits to Chile, therefore it was interested in having the best possible base from which to work. As an advocate, it felt in a position to suggest to its potential client the way in which best to prepare its case. He said that some representatives of financial institutions in Washington were inclined to feel that slack remained to be taken up in Chile's credit structure. They adduced the fact that 58% of all credit was utilized by the private sector of the economy and 42% by the public and felt that if subsidy continuation proved politically unavoidable, the inflationary tendency of the resulting deficit might logically be compensated for by further contraction of credit in the private sector. This, combined with other admittedly unpleasant but nevertheless indicated steps like additional taxation and governmental economies might permit the resolution of Chile's anticipated deficit condition without the necessity of foreign loans. Mr. Bernbaum emphasized that he was not speaking of final judgments but only of attitudes which he and Mr. Rubottom had noted developing in various quarters.[4]

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[4] Puga returned to Chile on April 21. The following day, Lyon spoke with him regarding Chile's financial situation. According to a memorandum of that conversation, drafted by Lyon, Puga viewed the situation "as extremely black." "The sum and substance of his arguments," the memorandum noted, "are that Chile desperately needs help at this time in the way of a political loan and is unable to get it, it appears, from the International Bank or the Export-Import Bank. He hopes, therefore,

410. Letter From the Ambassador in Chile (Lyon) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Santiago, May 14, 1957.

DEAR DICK: In addition to the telegrams and despatches we have sent about the local situation, I think it may be useful if I give you a little of my own thinking, less formal as it were.

As you know, I am perennially optimistic. I think one has to be in our work and it is lucky I am for at present I view the situation in Chile through rather pessimistic eyes.

Things were going very well until about last August. Although business people, bankers and the like were opposed to certain aspects of the anti-inflation fight, largely because it was hurting their pockets, it was really succeeding. Then when President Ibañez impetuously got rid of the Minister of Finance, Herrera, who had become the symbol of the anti-inflation fight, confidence was generally shaken. Despite this the economy was kept under control and progress continued through January when the Congress approved a budget for 1957 that was generally in balance for the first time in years.

Since then our troubles have been increasing, but with all, I think we could have been almost certain of victory if a series of unexpected misfortunes had not overtaken us. First, the sharp drop in the price of copper which, as you know, now averages for Chile about 30–31 cents a pound. The Chilean budget for this year was balanced on a 35-cent copper. This drop represents a loss in revenue of about 30 million dollars. Added to this the nitrate business is in an appalling condition and will have to be carried by the banks until the effects of the recent Eximbank loans begin to be felt—about two years hence. Also there has been a terrific drought this year resulting in extremely poor harvests and the need for large advances by the banks to carry the farmers.

We thus face a fiscal deficit carried over from last year now increased by a further large deficit in prospect for this year. We have prices continuing to rise, particularly on those goods which up until now have been subsidized by the Government.

The result is obviously general discontent which is not diminished but increased among the political parties supporting the Presi-

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that the State Department will be able to encourage one of these institutions to make a political loan." (Department of State, Santiago Embassy Files: Lot 64 F 87, Economic Matters—General)

[1] Source: Department of State, ARA Files: Lot 60 D 67. Confidential; Official–Informal.

dent by the President's unpredictable actions. Business has declined during the past year and unemployment has increased to a greater extent. All of which in the face of coming elections is not a pretty picture.

On the positive side of the ledger there has been a definite slowing down in the increase in the cost of living and although as I said above, while last August bankers and businessmen were still opposed to the fight against inflation, it is nowadays pretty broadly accepted as a good thing which must be continued.

Chile now enjoys a free exchange and many of the subsidies have been stopped and others are to follow. Eximbank loans are slowly trickling this way, and the President demonstrates a determination to go through with the anti-inflation policy.

The one fly in the ointment is that President Ibañez has let down the Conservative and Liberal parties who have been supporting his policies so many times that they are pretty well fed up, particularly as both are politically "opposition" parties.

For the first time in months the Klein–Saks Mission seems defeatist in outlook and insists the only way the situation can be saved is by a large (about $40 million) loan from U.S. banks.

I do not think we should look at the situation quite so gloomily, though I admit it is precarious. If, by any chance, the price of copper should again rise the situation could quickly change. Things change very quickly in Chile. They can go from good to bad or vice versa with extraordinary rapidity.

Another hopeful possibility is that the political parties which have been supporting the President will again get behind him. At present conversations with this end in view are being carried on between the ex-Minister of Interior[2] and the leaders of these parties. (I sent a memorandum of conversation covering this about ten days ago.)[3] Should some arrangement be reached and the President, at their behest, install a cabinet which would renew confidence in the country, the whole situation might change over night, as it were.

In any event people will become so interested in the next presidential election very shortly that they will forget about their present woes in anticipation of future possibilities and thus a period of comparative tranquility might ensue. However, one cannot be so foolish as to count on miracles and the odds are very definitely against us at the present time. I think you ought to know that, so you and the lads in the Department will be sympathetic to any proposals which are made with a view to holding the line here. I do not for a moment mean to imply you have not been so, but I want you to know that the sky is heavily laden with clouds and whether it really pours or they pass on largely depends on how the wind blows. We may have an opportunity of helping that wind.

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[2] Roberto Infante.

[3] Not found in Department of State files.

Elsie joins me in best wishes to you and Billie.

As ever,

Cecil

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411. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Assistant Secretary of State for Economic Affairs (Kalijarvi)[1]

Washington, June 4, 1957.

SUBJECT

Chilean Stabilization Program

Embassy Santiago has reported, and the Klein–Saks group has explained to me here, that the Chilean stabilization program is in serious danger of failure unless outside assistance is made available soon to Chile.

At the heart of the problem is the budgetary situation. Several unforeseen factors have increased budgetary needs since the original budget was promulgated, while revenues have been less than anticipated, largely the effect of the precipitous drop in copper prices. Probably the situation could have been substantially ameliorated had the Government earlier acted with more decisiveness. Nevertheless, even if the Chilean Government were to institute at this time all the corrective measures recommended by the Klein–Saks Mission, it appears that there would still be a budgetary gap this year of approximately 20 billion pesos, roughly equivalent to the short-fall in copper revenues. The Government has already begun substantial deficit financing which if continued will, in the opinion of the Embassy and the Klein–Saks Mission, seriously jeopardize the stabilization program.

It has been suggested that, in these circumstances, Chile draw on the already existing exchange stabilization fund. However, the Government and the Klein–Saks Mission believe that this would be an admission of crisis which could have dangerous psychological effects. Moreover, they fear that utilization of this short-term credit at this time would prejudice Chile's chances of obtaining badly needed long-term development loans which the IBRD is now actively considering for Chile. They also hold that the purposes for which this drawing would be made are not consonant with the letter and spirit of the Standby Agreement with the IMF (Paragraphs 2 (B) and (C) of the Agreement).

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[1] Source: Department of State, Central Files, 825.10/6–457. Official Use Only.

The head of the Klein–Saks Mission in Chile, Mr. Carter, is now in Washington presenting the case for a United States Government loan to Chile. I anticipate that we will shortly be receiving a formal request for a loan from the Chilean Government. As you know, the Chilean Ambassador has already broached this possibility to the Export-Import Bank. While we do not accept all of Mr. Carter's reasoning or necessarily agree that a loan as large as he had indicated is required, I do believe that the Chilean stabilization program has indeed reached a critical point and that some assistance from the United States is indicated. The overall momentum in Chile so far has been favoring the ultimate success of the stabilization program and speculative activity bred by an inflation psychology has been significantly curtailed. Once the program begins to evidence signs of deterioration, this momentum could rapidly take the opposite direction. Failure of the Chilean effort, which appears to be a real danger at this time, would severely impair any possibilities of putting into operation in the future similar stabilization programs in other Latin American countries.

Members of my staff have been discussing this problem with your staff. An ARA proposal was embodied in a paper circulated on May 21, a copy of which is attached.[2] Since I hope that an agreement with Chile could be worked out to be effective for the second half of 1957, I would appreciate having your views on our proposal or other suggestions you might have for confronting the present financial situation in Chile. We recognize, of course, that any assistance which might be extended Chile at this time would have to be joined to firm commitments on the part of Chile to institute necessary corrective measures.

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[2] The attached paper, drafted by Albert Post of REA, contained a detailed plan to revive the Chilean stabilization program; not printed.

412. Memorandum of a Conversation, Department of State, Washington, June 13, 1957[1]

SUBJECT

Restrictions on Chilean Exports of Copper Wire

PARTICIPANTS

His Excellency, Mariano Puga Vega, Ambassador of Chile
Mr. Rubottom—ARA
Mr. Turkel—REA
Mr. Devine—OSA/W

Following a conversation upon another subject, Ambassador Puga said that he regretted the necessity of bringing up a somewhat unpleasant matter. He referred to the restrictions upon Chile's exports of copper wire under six millimeters in diameter. Ambassador Puga noted that the United Kingdom and other European countries were free to export this type of wire to the Soviet Bloc but that Chile was not. He said that in view of the currently reduced level of industrial activity in Chile, the Government and the Ministry of Foreign Affairs were under great pressure from domestic interests (normally fabricating up to 20,000 tons of copper products annually) to remedy this situation by obtaining equality of treatment. He noted that the United States had asked Chile to postpone authorizing such shipments pending the outcome of current discussions aimed at restoration of the international embargo. The Ambassador said that such discussions had gone on much longer than anticipated and that meanwhile other countries continued to make such shipments. He asked that Mr. Rubottom take a special interest in this matter and attempt to secure equality of treatment for Chile.

Mr. Rubottom said he was aware of this situation and would look into it again. He recalled that only recently a communication had come in from the Embassy in Santiago bearing on this same matter. Mr. Devine confirmed that this had been within the last few days. Ambassador Puga earnestly requested Mr. Rubottom to take a special interest in expediting a fair solution of this lingering problem. Mr. Rubottom said that he would certainly do so. Ambassador Puga then handed him a memorandum upon the subject,[2] expressed his thanks for Mr. Rubottom's interest and departed.[3]

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[1] Source: Department of State, Central Files, 460.259/6–1357. Secret. Drafted by Devine.

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[2] Not found in Department of State files.

[3] On July 25, Working Group I of the Economic Defense Advisory Committee (EDAC) met to discuss, among other items, the Department of State's proposal to afford immediate equal treatment to Chile in the matter of copper wire exports to the Soviet Union. (Memorandum from Devine to Rubottom, July 26; Department of State, Central Files, 460.259/7–2657) In telegram 72 to Santiago, July 29, the Department authorized the Ambassador to notify the Chilean Government on July 31 that the United States did not object to equality of treatment regarding export controls on copper wire under six millimeters. The United States had agreed in principle in November 1956 that Chilean controls should parallel COCOM controls. (*Ibid.*, 460.259/7–2957) In telegram 98 from Santiago, July 31, Lyon reported that the Chilean Foreign Minister, when informed of the decision, was "delighted". (*Ibid.*, 460.259/7–3157)

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413. Letter From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in Chile (Lyon)[1]

Washington, June 22, 1957.

DEAR CECIL: Billy and I leave tonight for Central America and Panama to be gone two weeks. In haste, I wish to take up two matters with you.

First, you have received two letters regarding President Ibañez' visit which were discussed with me, but you should have my views. Frankly, I am reluctant to approve a visit by him although it is still scheduled for December and I shall take seriously your final recommendation, not later than July 15. Much better reasons can be adduced for inviting President Siles of Bolivia or President Lemus of El Salvador. I believe that we can sell the Secretary and President on a change if we decide to recommend it. However, I definitely want to keep Ibañez as a bird in the hand rather than give up a Latin American visit entirely at least until you make your recommendation. If that is negative, we shall redouble our efforts to have a substitute approved.

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[1] Source: Department of State, ARA Files: Lot 59 D 573, Chile 1957. Secret; Official–Informal.

Harry Turkel has carefully prepared the groundwork for a 20 million dollar Export-Import Bank credit to Chile to be advanced against demonstrable progress in tightening up her efforts in the stabilization program. The magic figure of 40 million dollars can be reached by adding an IMF drawing or a new PL–480 deal to the above mentioned Export-Import Bank credit. He has several ideas and the approach is flexible enough to meet the Chilean needs, in my opinion. It would be entirely unwarranted to state that the 20 million dollar Export-Import Bank figure had been approved but I believe that we can put such a deal across.

Prescott Carter, who knows of our plan, and Ambassador Puga, who has been warned that the 40 million dollar figure is too high to hope for, both argue for the full amount requested. Carter also says that the Chileans will not agree to any additional tightening of the screws.

Frankly, I like Turkel's approach to the problem and have given him plenty of rope to try to get it across. I never could quite accept first Puga's and then Carter's flat insistence on 40 million dollars, especially since Puga arrived at that amount within less than a week after the March turbulence.

Our approach to Chile should be something like this: we are sympathetic to your problem; we are prepared to help to this extent; this extent, or even a larger amount, would be wasted and Chile's credit further extended unless, concomitantly, Chile takes certain steps to reduce the inflationary trend, especially in the tightening of credits; by doing this we hope that Chile could avoid having to come to the United States next year for additional extraordinary assistance.

We have given both of these matters; the presidential visit and the credit, the most careful study, as we have all matters relating to your great good friends, the Chileans. They are among the most attractive people I have ever met and, in spite of the disillusionment which you have come to feel, we do not have a more attractive post.[2]

[Here follow brief personal remarks.]

Very sincerely yours,

R.R. Rubottom, Jr.[3]

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[2] In a letter to Rubottom, dated July 10, Lyon strongly recommended that President Ibáñez be invited to visit the United States. He believed that an invitation to Ibáñez "would indicate that we stand ready to support those countries which have the courage to embark upon sound, badly-needed programs of economic rectification." "If the anti-inflation fight is as important to Chile and to the rest of Latin America as I have been led to believe it is," he stated further, "I really believe that public recognition of the man who has carried the burden of it is in order." (*Ibid.*)

[3] Printed from a copy which bears this typed signature.

414. Letter From the Ambassador in Chile (Lyon) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Santiago, July 11, 1957.

DEAR DICK: Harry leaves this afternoon and I think his visit has been useful.[2] He arrived with some very definite ideas and has now left, realizing that the situation is extremely serious and getting daily worse with the continual fall in the price of copper, and that if a loan is not forthcoming the anti-inflation program is likely to fail. Harry, when he arrived, indicated to us that he had a very definite frame of reference from the banks, Monetary Fund, Treasury, etc. I think he is now convinced that this frame of reference was inadequate. As he has made clear to us, he, as a tough negotiator, enjoys the confidence of the banks and government offices. I, therefore, believe that when he tells the facts of the case, these organizations will be prepared to listen to his arguments, which should be helpful.

As I have said time and again, I believe that to let this anti-inflation campaign go by the board now would be tragic. I think it is of supreme importance to Chile, and think it is of certain importance to all the American Republics, and I think it is of considerable importance to the United States.

After all, in addition to the political importance of the campaign, there is American capital of toward $1 billion invested in this country. Certainly, if things go badly one of the first sources for revenue to which the local Government will turn will be, as in the past, the copper companies.

We shall be sending the Embassy's view on Harry's conclusions shortly. I think we are all (save possibly Klein–Saks and perhaps they are coming along) in fair agreement that $25 million before the end of the year is about the rough figure necessary. There are, of course, as you know, various schools of thought as to details. Harry, like certain people in Washington, wants to have the Monetary Fund stand-by credit used. I believe Sam Waugh urged that this be done. The Klein–Saks Mission is very opposed to this, and I know that that stand-by credit over the past years has attained a certain aura of untouchability, and it might have certain bad psychological effects if Chile were to draw on it at this late date. This is also the feeling of Maschke, head of the Central Bank here. These are details which the experts will have to work out, but at the present time I am inclined to think that it would be wise to enter into any loan agreement with the Chileans with more flexibility, and not make the terms so rigid that the Chileans commit themselves to impossible conditions, nor should the loan be insufficient to do the job. This would only be building up difficulty for ourselves in the future.

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[1] Source: Department of State, ARA Files: Lot 59 D 573, Chile 1957. Confidential; Official–Informal.

[2] Telegram 26 from Santiago, July 7, reported on several of Turkel's substantive meetings with Chilean officials, the first of which was held on July 5. (*Ibid.*, Central Files, 825.10/7–757)

As you know, with the presidential elections looming on the horizon here, the Government may be subjected to such severe pressures that it would be impossible to resist. The situation, at best, is a most difficult one.

Dick, I cannot sufficiently emphasize how important I think it is that we aid Chile at this point. Psychologically, if we don't, I think the consequences would be very grave, and certainly our own investments here will be the ones to suffer. Moreover, I am Scotch enough to hate to risk the possibility of all the progress that has been made during the last two years being wasted. Already many improvements have been built into the Chilean economy that did not exist before this plan was initiated. I refer to the free exchange, the removal of subsidies, greater appreciation of the need to balance the budget, etc.—all of which we have wanted to see and which are concrete accomplishments.

The risk of reversion to the former policies if the inflation element again takes control would be a tragedy I do not care to contemplate.

Bill Belton mentioned to Maurie[3] on the telephone yesterday the possibility of my returning to Washington in this connection. Maurie said that you did not want me to come back unless I could return with something. I feel that is not the point. My only purpose in coming back would be if you thought my presence there would be helpful in effectuating the necessary aid. If this can be done without my coming, all to the good. I am not seeking any glory. However, I do not want, and I'm sure you don't either, to leave any stone unturned in obtaining this necessary aid, for I feel it is very essential. At this point we have much to gain and much to lose in Chile. I want to be sure that this anti-inflation program is saved.

As I have written you before, this situation reminds me of when I was in Egypt[4] and the Egyptians looked to us for guidance and assistance. I'm afraid we failed them. The Chileans are turning to us just this way today. I do not want to fail them, and I know you don't either.

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[3] Maurice Bernbaum.

[4] Lyon had been Counselor and First Secretary of the Embassy in Egypt, 1944–1945.

In summary, I think it absolutely essential to the future relations of our two countries that some aid be forthcoming at this juncture. I am prepared to put every ounce of support I have into it. I know you and the others in the Department will do likewise.

With best wishes to Billie, in which Elsie joins, I am

Yours as ever,

Cecil

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415. Telegram From the Ambassador in Chile (Lyon) to the Department of State[1]

Santiago, July 12, 1957—10 p.m.

50. Minister Finance called me this morning and reviewed his problems. He stated deficit by end of year will be 39 billion pesos. He hopes cover 19 billion pesos of this by new taxes, savings etc. One optimistic note was increase in tax collections partly due to more stringent methods, 4.5 billion. He thus seeks loan for US dollars 30 million, but after some discussion admitted he could survive with 25 million if he gets first installment quickly, by end of July. If he doesn't have some help by August, he will drown.

He referred to idea bringing IMF into picture. He said this would only be helpful if fund money available on same basis as terms EXIM Bank might establish, including authority use peso product to balance budget. He did not seem optimistic about getting such terms and indicated hope EXIM Bank might undertake entire transaction.

He read me cable just received from Puga describing interview with Secretary in which latter indicated awaiting Turkel's return make decision and difficulty of persuading banks.

Minister determined have balanced budget next year and getting all facts to present Congress.

I am convinced stabilization effort cannot continue in absence assistance approximate dimensions mentioned above. I do not want to see constructive gains anti-inflation program lost. Looking at broad picture here including (1) improved climate for major American investments during past two years, (2) many courageous acts this government has taken to achieve stabilization including most recent politically dangerous removal subsidies, and (3) the many extremely unfortunate repercussions, not only here but in rest of continent, of failure this stabilization program, I strongly recommend that prompt action be taken to provide funds to enable Chilean stabilization effort reach successful conclusion. In order safeguard US interests and induce Chile take proper belt-tightening measures I also recommend reasonable and feasible conditions on loan calling for Chilean efforts help themselves.

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[1] Source: Department of State, Central Files, 825.10/7–1257. Confidential.

Lyon

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416. Memorandum From the Director of the Office of Inter-American Regional Economic Affairs (Turkel) to the Secretary of State[1]

Washington, July 18, 1957.

SUBJECT

Report on Trip to Evaluate Chilean Economic Situation

Discussion:

As pointed out to you by Ambassador Puga, the Chilean stabilization program is now rapidly approaching a critical phase. Severe declines in the price of copper since February and other factors have combined to produce a dismal balance of payments outlook. Reserves are down to $5 million. The budget situation is even more precarious. The Chileans got through the first half of this year without galloping inflation only by using $20 million in reserves and $15 million of our PL 480 money. Even so, money supply and prices rose 15%. The stabilization program is now in jeopardy because no further cushion is available.

The Chileans have been pleading for $40 million in aid. As a result of my recent trip, in which I had long conferences with private experts and Government officials, including the President, I came to the firm conclusion that $25 million is needed to supplement Chilean efforts at self-help. More than $25 million will remove the spur so to perform that they will not return next year for aid. Less than $25 million will not be adequate to give a fair chance of success. The Chileans would, I believe, accept $15 million in Eximbank funds and $10 million of IMF money, spaced out to permit checking on their performance.

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[1] Source: Department of State, ARA Files: Lot 59 D 573, Chile 1957. Official Use Only.

After last April's riots, we publicly announced support of their stabilization efforts. If now we fail to give Chile any support, their only recourse is to the Fund. That aid, I believe, will be inadequate and the Government will again start printing currency to meet its bills. The price wage spiral will start and run-away inflation begin. Then the new unified exchange rate system will break down. When this happens the copper companies probably will again bear the brunt of discriminatory rates.

U.S. investments in Chile constitute nearly $1 billion. Under the favorable climate of the stabilization program and of a new copper law, the existing copper companies have been expanding and Cerro de Pasco is starting. The nitrate and even the power and telephone industries are planning expansion. A new favorable petroleum law is in the offing. The statist trend of the economy has been reversed. It would be a shame to permit the collapse of the stabilization effort. Latin America is watching this experiment closely.

Ambassador Lyon has just arrived from Santiago and will shortly see Mr. Waugh and the Board of the Eximbank. The IMF is already moving very helpfully in this matter.

Recommendation:

At the moment there is nothing special for you to do.[2]

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[2] A handwritten note on the source text indicates that Rubottom discussed this memorandum with Dulles orally and did not leave it with him.

417. Memorandum of a Conversation, Washington, July 31, 1957[1]

SUBJECT

Ambassador Puga's Views on Contemplated Financial Assistance to Chile

PARTICIPANTS

Señor Mariano Puga Vega—Ambassador of Chile
Mr. Rubottom—ARA
Mr. Devine—OSA/W

Following a conversation upon another subject, Ambassador Puga brought up the contemplated financial assistance to Chile.[2] He said that he feared this had been considered wholly on the economic and perhaps even the financial plane. He said that the political problem involved had been resolved badly and seemed to him to have been afforded little or no consideration.

Ambassador Puga pointed out that in response to Chile's urgent request for $40 million, only $12.5 millions were being made available by the United States. He recognized that another $12.5 million drawing upon the IMF was contemplated but said that this had always been available anyway. He said that the Chilean public does not distinguish between the Eximbank and the United States Government and that it will think only in terms of a request to the United States which has gone largely unanswered.

The Ambassador said that Chile was making a real effort under the stabilization program. He recounted having heard only recently from relatives in Santiago who were appalled at the increase in the price of sugar which had just been necessitated by the elimination of the corresponding subsidy. The Ambassador said that Chile had a very real need for substantial assistance and that $12.5 million was inadequate to the task at hand.

Ambassador Puga noted that the Government of Chile had wished to preserve the $75 million stabilization fund untouched as a symbol of stability which would engender public confidence. Now it was being asked to draw down $12.5 million thereof. The Ambassador said that this would inevitably be only the first of several drawings. To demonstrate this he recounted Chile's dollar availabilities. He said that normally, as the basic pillar of its economic stability, Chile has a gold reserve of approximately $42 million. Now it was preparing to pledge $15 million of this all-too-slight reserve as a means of securing a loan from the Federal Reserve. He pointed out that the $10 million borrowed from First National City Bank of New York would run out in 90 days and would have to be repaid then, or at best after an extension of another 90 days. Similarly, the Federal Reserve loan would have to be repaid after 90 days—or if it could be renewed one or more times—within a year at best. The Ambassador pointed out that these repayments would almost necessarily have to be met by drawing the money from the stabilization fund. He noted that this totalled up to drawings of $37.5 million on the fund within the course of a year. Even the Eximbank and IMF amounts of $12.5 million each, he said would be coming due sooner than convenient. Ambassador Puga said that Chile had come to the United States asking for $40 million on long term and would now come away with only $12.5 million on short term. He expressed a personal feeling of considerable disappointment.

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[1] Source: Department of State, Central Files, 825.10/7-3157. Confidential. Drafted by Devine.

[2] On July 24, the Export-Import Bank informed Puga of its willingness to extend $12.5 million in exchange credit for the purchase of essential U.S. capital goods. The Department reported this decision to the Embassy in Santiago on July 25 in telegram 63. (*Ibid.*, 825.10/7-2557)

Mr. Rubottom said that he was very sorry to see Ambassador Puga take this attitude and express so strong a feeling of disillusionment. He said that the Ambassador was wrong in thinking that the political aspects of the question had been ignored. Mr. Rubottom said that these had been very much taken into account. He recalled that ever since this matter first came under discussion, the Department of State had been reluctant to consider the $40 million figure as a magical or unquestionable one. He said that very careful studies had led this and other agencies of the United States Government to the considered conclusion that $25 million would cover Chile's most pressing needs and enable it to press ahead with the stabilization program under which so much progress had been achieved. He noted Ambassador Puga's contention that only $12.5 million assistance was being extended but said that he felt the more accurate figure was $25 million. The Ambassador interrupted to say that he wished Mr. Rubottom could convince him of this.

Mr. Rubottom said that this was only one chapter in a book that was still unfolding. He said that when Chile initiated its stabilization program and a $75 million fund was provided to assist it, this was in effect the first of various chapters. He noted that although Ambassador Puga and many Chilean Government officials appeared to consider the fund untouchable, this had never been the understanding of most people here in Washington. Mr. Rubottom went on to say that when Chile got into difficulties in March of this year and began to foresee a need for external assistance, this might be considered as the second chapter. Now, said Mr. Rubottom, as a further demonstration of its support, the United States had just indicated it was prepared to make available an additional amount of dollar assistance. This was the third chapter. Regarding the future, Mr. Rubottom said that there were certainly additional chapters in the story but said that neither he nor anyone else could accurately foretell what they would bring.

Ambassador Puga agreed with Mr. Rubottom's general approach. At the same time he reiterated his concern for the public reaction of the moment in Chile. He said that within the past 24 hours he had been phoned from Santiago by Mr. Rene Silva of *El Mercurio.* Mr. Silva had told him that the rumor was circulating that loan assistance to Chile would be only in the amount of $15 million. In reply to Mr. Silva's inquiry, Ambassador Puga said that he had only given him general assurances that Chile's case was receiving favorable consideration. The Ambassador quoted Mr. Silva as having been ready to interpret any such small amount as practically a demonstration of disagreement and lack of cordiality.

Ambassador Puga said that what he was expressing to Mr. Rubottom was of course only his own personal feeling and not what he had transmitted to his Government. He said that in relaying to Chile for consideration of the Minister of Finance the proposal recently received from the Eximbank, he had acted correctly and impartially and had merely stated that as a result of their studies, Washington agencies considered that $25 million was sufficient to meet Chile's needs. At the same time, the Ambassador said he earnestly hoped that if there were any way to bring about a reconsideration and increase in the amount of the loan on the basis of the important political factors involved, that Mr. Rubottom would endeavor to do this.

Mr. Rubottom repeated his earlier statement that ample consideration had already been afforded all aspects of Chile's case—including the political—but said that Ambassador Puga should rest assured that Chile's problem continued to receive careful and sympathetic attention.

During the course of the meeting, Mr. Rubottom referred to the problems which inevitably ensue when negotiations are held under the glare of publicity and, especially, when specific amounts for possible loans are mentioned. He said that it is much better for both sides to avoid mentioning amounts until the negotiations have been completed. The Ambassador at first dodged Mr. Rubottom's statement but before leaving carefully pointed out that he had not mentioned any exact figures in spite of the constant pressure which the press had put on him.[3]

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[3] On November 4, Ambassador Puga and officials of the Export-Import Bank signed the $12.5 million loan agreement. The Department reported this development to the Embassy in Santiago in telegram 284, November 7. (*Ibid.*, 825.10/11-757)

418. Current Economic Developments, Issue No. 527, September 3, 1957[1]

[Here follow a title sheet and discussion of unrelated matters.]

Chilean Stabilization Program Facing Further Difficulties

The Chilean economic stabilization program which was initiated in late 1955 is facing serious difficulties this year as a result of emerging economic, political and social difficulties. Internal financial controls have led to some cutbacks and unemployment, particularly in the textile and construction industries. Dissatisfaction with the program and opposition to various measures has increased and made more difficult the implementation of further measures necessitated by unfavorable economic developments. A continuing decline in copper prices, which adversely affects foreign exchange receipts and tax revenues, indicates prospective further increase in inflationary pressures. This could result in the present economic policies being changed out of political necessity by the government or by a change in government following next year's Presidential elections. The Chilean Government has requested US balance-of-payments aid of $40 million to meet anticipated payments deficits this year and at the same time to generate local currency for use in meeting the budget deficit and in financing a housing program to relieve the recession in the construction industry. The request has been met by credits from the Eximbank and the Federal Reserve Bank of New York and an International Monetary Fund drawing.

Background The Chilean stabilization program, which was undertaken in December, 1955, by the Government of President Ibanez with the advice and assistance of the American economic consulting firm of Klein and Saks, was fairly successful during 1956 in reducing the rate of inflation and encouraging foreign public and private investment in the Chilean economy. The program has been endangered this year by prospects of serious deficits and increased inflationary pressures, partly as a result of the effects of the decline in copper prices which far outstripped the Chilean Government's efforts to base revenue estimates on what seemed a conservative price for copper. The Chilean budget has been based on an estimate of 35¢ a pound for copper, but prices declined to an average of 32¢ the first quarter this year and have since fallen another 2½¢. Since, as a general rule of thumb, a 1¢ drop in copper prices results in an exchange loss of $6 million in a year and loss of the peso equivalent of $7.5 million in revenue, the persistent decline had necessitated considerable measures both to facilitate long-run adjustment and to meet prospective serious deficits this year. (See page 26, March 5, 1957 issue.)

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[1] Source: Department of State, *Current Economic Developments:* Lot 70 D 467. Confidential.

Opposition to Program The prospects of successful maintenance of the stabilization program this year and until the Presidential elections next year dimmed in recent months. General dissatisfaction with the stabilization program mounted despite the fact that the program had improved the lot of the Chilean worker or at least prevented the further deterioration which would have occurred in its absence. This growing dissatisfaction is attributable to increasing unrestrained political opposition to the Government on the part of opposition parties with an eye to 1958 Presidential elections. It is also due to the Government's failure to explain its measures adequately to the public. Students and workers rioted in protest against nominal increases in bus fares in April which the Government had announced earlier but vacillated in implementing. The strength of the Government in implementation of its program was further weakened by a Cabinet crisis in early July which resulted in resignation of Ministers who had opposed scheduled price increases as an essential part of the stabilization program. The revenue outlook of the Government has failed to improve as copper prices continue to decline, and further revision of expenditures and of tax measures has been necessitated in hope of making the success of the stabilization program generally evident before elections and thus preventing reversal of present economic policies or emergence of an undesirable government.

Prospective Deficits The Chilean Government estimated that its budget deficit at the end of this year would be some 39 billion pesos. (The free banking rate is 660 pesos to the dollar.) Proposed domestic measures for this year would meet part of the deficit and leave a 24 billion peso gap. Despite considerable opposition, the Government removed subsidies from many items in July which, although resulting in an increase in prices, will help to reduce the prospective budgetary deficit by reducing expenditures and the Government has requested various taxes for increased revenue this year. Some of the budgetary relief afforded by the renewal of subsidies was, however, nullified by a simultaneous increase in family allowances.

The 1958 budget being submitted to Congress is balanced at 322 billion pesos and based on 26¢-a-pound copper. However, an estimated 20% wage increase, which is to be proposed, is not included in this budget and will cost another 30 billion pesos. This would be covered by a new tax bill which was introduced into Congress early in August, but the Executive fears that the Congress will approve taxes yielding only 20 billion pesos. The Government now plans to submit the budget and wage increase bills to the legislature before the taxes are finalized in an attempt to force the Congress to achieve a balance.

In an effort to adjust to the long-run situation, the Government has taken various steps to develop other industries and exports. A special study by the Chilean Government of the ailing nitrate industry made early this year considered loans to the industry and revision of the exchange rate. The Klein–Saks mission felt that these measures would endanger stabilization but made a subsequent study and developed various possibilities of strengthening the industry. The Eximbank had authorized loans in July, 1956 totaling $27.8 million to the two leading nitrate producers, nearly all of which is still unspent. The International Bank in July this year granted a $21.8 million loan for development of the coal industry and another loan for rehabilitation of the railways has been under negotiation. President Ibanez recently accepted an Italian bid for the electrification phase of the railway program after reaching an understanding with the Bank as to subsequent refinancing.

Request for Aid In order to meet the remainder of this year's foreign exchange and budget deficits the Chilean Government and the Klein–Saks mission came to the conclusion that foreign assistance was needed. The Government requested and the Klein–Saks mission recommended $40 million from the US during the rest of the year in the form of an Eximbank balance-of-payments loan. In requesting a loan from the Bank, Chilean officials stated that suggested assistance from the International Monetary Fund would be helpful if it were available on the same terms as the Eximbank might offer, including the authority to use the peso product of the loan to balance the budget, but it felt that such terms from the Fund would be unlikely.

The US expressed sympathy and interest in the Chilean economic difficulties but pointed out its concern over increasingly unfavorable reaction in financial circles to the requested loan which could prejudice prospects of developmental credits essential to the long-run program, as all loans are related directly to and affect the nation's credit capacity. The US also urged that further domestic measures be taken to decrease prospective deficits this year. Favorable decision has been reached by the Eximbank Board of Directors on a loan of $12.5 million for the purchase of capital goods contingent upon the prior drawing of $12.5 million by Chile under its $35 million standby arrangement with the IMF. (The standby arrangement had been granted at the outset of the stabilization program and renewed earlier this year along with $30 million from private US banks and $10 million in a US Treasury exchange agreement.) The

Eximbank loan is also made contingent upon certain commitments by Chile to establish and to some extent to achieve well-defined goals in the credit, monetary and exchange fields believed essential by the IMF and the Eximbank to insure success of the stabilization program. The loan would be repayable in 12 quarterly installments beginning January 1, 1959 and would bear interest at the rate of 5½%. Simultaneously with approval of the $12.5 million Eximbank loan and the decision to draw $12.5 million of the standby, the Government of Chile also arranged to borrow $15 million from the Federal Reserve System by pledging part of its gold reserves as security.

Also under consideration by the Chilean Congress at present is a loan agreement covering the peso equivalent of $29.41 million arising from the latest PL–480 sale of surplus US agricultural commodities. This amount includes $1.16 million which was recently added to the loan earmark in response to a Chilean request that the loan component be increased from 80% to 85% in order to provide funds for loans to the nitrate industry. However, signature of the loan agreement has been held up by reluctance of certain Chilean legislators to accept the maintenance-of-value provisions which would entail loss of some 25% or $7.5 million to the Government as a result of decline in the value of the peso since signature of the sales agreement. Although possible Chilean refusal of the loan has been indicated, which would leave the US with the entire amount of pesos and bearing the loss in their value which has occurred plus the risk of any future depreciation as well, the US does not wish to alter the related provisions in the original sales agreement. Such action would encourage Chile to consider other firm agreements also subject to renegotiation and would establish a precedent inviting similar requests from other countries having PL–480 sales agreements which have the same maintenance-of-value provision and with loan agreements yet to be concluded. Meanwhile, Chile has requested a third PL–480 agreement totaling some $30 million over a three-year period, consideration of which has been deferred in light of problems over the pending loan agreement and of exhaustion of PL–480 obligating authority prior to recent Congressional approval of an additional $1 billion in authority. Most recent indications are, however, that a considerably smaller sales agreement will be considered.

419. Memorandum of a Conversation, Department of State, Washington, November 6, 1957[1]

SUBJECT

Economic and Financial Developments in Chile

PARTICIPANTS

Mr. Charles Knox—Klein–Saks Firm of Economic Consultants
Mr. Thomas Lockett—Klein–Saks Firm of Economic Consultants
Mr. Turkel—REA
Mr. Rosenson—REA
Mr. Devine—OSA/W

Messrs. Knox and Lockett handed Mr. Turkel a "Strictly Confidential" memorandum summarizing the current exchange situation in Chile and the corrective measures recommended by Klein–Saks.[2]

Mr. Turkel observed that Mr. Carter had recently estimated next year's exchange deficit at $60–70 million but that now the estimate had apparently risen to $100 million. He noted that the GOC was planning for the coming year on the basis of a "conservative" 26¢ price for copper, even though the average price being received by Chile for its copper was already below that. Mr. Knox said that what was "conservative" when the budget drafting commenced was no longer so.

Mr. Turkel suggested that the exchange shortfall might be eliminated by the simple expedient of freeing the exchange rate. Mr. Knox replied that it would be up to 715 by the end of this year. Mr. Turkel insisted that there was no reason to hold it artificially below the free-market level, now about 735. He said that a higher rate combined with tighter credit control would choke off the demand for dollars. Mr. Knox objected that the higher rate would push the cost of living upward. Mr. Rosenson said that it had been his experience that people generally attributed too much cost-of-living impact to the exchange rate. Mr. Knox admitted that the incidence of imported goods in the over-all cost of living was only something like 2%, but he professed to believe that a disproportionate increase would result from any rate increase. Mr. Rosenson suggested that an increase in some prices might serve to bring a healthful cut in over-consumption. He asked if petroleum-product prices in Chile were not still somewhat below their realistic levels. Mr. Knox noted that the public transport system in Santiago was one of the principal consumers and that a price increase here would immediately be translated into a particularly widely felt cost-of-living increase.

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[1] Source: Department of State, Central Files, 825.131/11–657. Confidential. Drafted by Devine.

[2] Not found in Department of State files.

Mr. Knox said that the major question at hand was how to meet the imminent exchange deficit. He said that additional amounts could be drawn from the standby credit and imports could be cut, but that even so, exchange controls might have to be reinstated. Mr. Turkel maintained that the exchange rate should be set free. Mr. Lockett pointed out that President Ibañez had at last agreed to cut down on exchange drain through Arica by instituting an import list and system of guarantee deposits there.

Mr. Turkel commented that Chile could go on drawing $6.25 million monthly until next April, up to a maximum of $22.5 million, but at that time he said it was very doubtful whether the stabilization arrangement would be renewed. He suggested that the single greatest thing President Ibañez could do on his forthcoming trip to Washington[3] would be to secure such a renewal, but he predicted that this would not be easy. Mr. Turkel observed that under the "fine print" in the stabilization arrangements, the New York banks could probably protect their resources if they wished and that the U.S. Treasury certainly could. He termed any hope of additional credits from the Eximbank as very, very dim. This left, he said, only the major American copper companies, and if desperate, the GOC would almost certainly turn to them. Mr. Knox said that this was what he feared. Mr. Turkel then admitted that the copper companies did indeed represent a major American investment in Chile. At the same time he said, their stockholders had gone in with their eyes open and he could not see the justification of forcing the American taxpayer to bail them out through unwise economic assistance to the GOC. In any event, said Mr. Turkel, even another $50 million would not do the trick in Chile so long as wrong attitudes and policies persisted. He said that the fundamental policies must change. Mr. Knox maintained that they had changed. Mr. Turkel denied this. He said the Central Bank and its personnel were not yet ready to face up to the basic problem confronting Chile, which was how to live within its resources.

Mr. Knox said philosophically that some people felt the whole system and way of life in Chile were wrong and that eventually the inequalities, latifundismo, dependence on minerals, and all the rest would have to be drastically revised. He speculated that perhaps the excessive dependence on copper would always subject the national economy to swings of too great magnitude. Perhaps, he said, this made a free economy impracticable and implied a necessity for exchange controls. Mr. Rosenson said that a reversion to exchange control would mean throwing away all the progress that had been made under the stabilization program. He said that the important thing was to hold on to the gains already made. Mr. Knox asked him if he really felt that a free economy could be viable in the face of a $100 million or even a $50 million exchange deficit. Mr. Rosenson replied that it could certainly be viable but that at some level a balance must be struck. Mr. Lockett asked if this meant sizable reduction of imports. Mr. Turkel replied that it certainly did. He suggested that if things continued to go on as they are, eventually perhaps a currency reform should be considered by the new Government at the end of next year, one that would do away with pesos and establish a new monetary unit.

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[3] President Ibáñez was scheduled to visit Washington on an official State visit December 11–14 but the trip was postponed due to President Eisenhower's illness.

Mr. Knox said that an analysis of Chile's imports would show that about $110 million of the $300 million total went for basic essentials. Mr. Turkel said the answer then was to cut down to the $110 million.

Mr. Knox noted that southern Chile was badly off and some workers were emigrating to Argentina. Cessation of coal exports to Argentina had semiparalyzed the industry, and the drastic decline in Chile's construction industry had similarly affected lumber producers in the southern provinces. Mr. Turkel asked why the $5 million drawn from the Federal Reserve for that specific purpose had not gone into the construction industry. Mr. Knox said that the money had never yet become available due to a delaying technicality at the Contraloria. Mr. Lockett added that from July to August, retail sales had fallen by 18%, industrial production by 6.5%, and industrial sales by 8%. He termed it paradoxical that in the face of such declines, prices continued to mount. Mr. Turkel asked about the total cost-of-living increase. Mr. Lockett said that it had gone as high as 36% since the beginning of the year but had dropped back in October to below 30%. Mr. Knox said that the balance of this year should show no further net increase.

In summary, Mr. Turkel said that the basic problem facing Chile was that of living within its income. A freely-fluctuating exchange rate would automatically contribute to this. Mr. Rosenson added that sufficiently tight credit controls would keep domestic money supply so low as to discourage and even preclude excessive imports and inventories. Mr. Knox commented that severe pressure had already developed for relaxation of the existing controls on credit. Mr. Rosenson observed that the absence of such pressures would be prima facie evidence that credit control was not doing the job it should.

COLOMBIA

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND COLOMBIA[1]

420. Memorandum From Albert H. Gerberich of the Office of South American Affairs to the Director of the Office (Atwood)[2]

Washington, January 20, 1955.

SUBJECT

Lunch at Colombian Embassy; discussion of pending problems

Bennett, Krieg, Blankinship[3] and I had luncheon with Ambassador Zuleta today. He gave us a rather bad time.

He practically went down the list of pending problems, beginning in the middle of the luncheon.

1—*Mission to discuss obtaining military equipment.* He brought this one up first and Mr. Blankinship gave him briefly the information contained in Mr. Spencer's memo to you.[4] He was visibly displeased and said even Guatemala had received more military assistance than Colombia in the last 5 or 10 years. At this point Chaves[5] put in, "Also Russia". Krieg quietly questioned the statement so far as it concerned Guatemala, but the Ambassador would not back down. (He also could not answer Krieg's question as to just what military equipment Guatemala received.) He said that of all the 20 republics, Colombia ranked 12th in amount of assistance despite its contribution to the war in Korea.[6]

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[1] Continued from *Foreign Relations,* 1952–1954, vol. IV, pp. 766 ff.

[2] Source: Department of State, Central Files, 721.5–MSP/1–2055. Confidential.

[3] Byron E. Blankinship, Officer in Charge of North Coast Affairs in OSA.

[4] Dated January 14, not printed. In it Spencer recommended informing Ambassador Zuleta Angel that an increase in grant military assistance would necessitate an amendment to the secret bilateral military plan between the United States and Colombia. Such an amendment would require high-level discussion in the Department of Defense. Spencer added that funds for additional assistance were not available in the current fiscal year. (Department of State, Central Files, 721.5–MSP/1–1455)

[5] José Maria Chaves, Counselor of the Colombian Embassy.

[6] A Department of State press release, dated October 14, 1950, stated that the U.N. Command in Korea had accepted Colombia's offer of a manned frigate. For text of the release, see Department of State *Bulletin,* October 16, 1950, p. 606. On (Continued)

2—*FCN Treaty.* He has evidently gotten word that Kalijarvi is opposing renegotiation of the Treaty, for he questioned us a lot about him. We told him we are going to have a meeting tomorrow and will be able to give him an answer afterward on reopening negotiations.

3—*Visit of Deputy Secretary of Defense Anderson to Colombia.* He asked if Mr. Holland had received any word from Mr. Anderson as to whether he would make the trip in place of Secretary Wilson. We had to put him off on that one. (Miss Karydakis[7] tells me Mr. Holland is awaiting a reply from Mr. Anderson.)

4—*Paz de Rio.*[8] He complained that the Eximbank is trying to oblige them to accept a $10,000,000 credit for a "planta de laminación" that is antiquated and not susceptible of expansion. The McKee Construction Co. of Cleveland submitted an alternate plan, which the Bank has been studying for a month and now says is incomplete, and McKee must furnish it with additional data. He said Colombia has been offered a $25,000,000 credit by the Banque de Paris et Pays Bas, and he thinks in the end Colombia will accept the French credit.

N.B. In enlarging on the Paz de Rio matter he confirmed what we have previously heard: that he went to Senator Holland[9] of Florida and urged him to support the Colombian application to the Eximbank. He also mentioned Senator Chavez[10] by name in this same connection, without saying outright that he tried to enlist him also in Colombia's support. It seems very probable, therefore, that he did so.

5—*Talks with Protestants.* He said that Charles Taft[11] is going to hand him a paper next week with the acceptance of his suggestions regarding the definition of the rights of Protestants in Colombia. As soon as he has this in his hands he is going *personally* to submit it to President Rojas in Bogota and tell him he has only to proclaim that the U.S. Protestant leaders accept the formula, and the religious difficulties are surmounted. The statement that he is going personally to Bogota is naturally of great interest to us.

In the course of his one-way conversation Ambassador Zuleta informed us that the Rio Treaty of Reciprocal Assistance was an

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(Continued)

November 14, 1950, Colombia offered an infantry battalion for participation in the Korean conflict. Documentation on the participation of the American Republics in the Korean conflict is printed in *Foreign Relations,* 1950, vol. I, pp. 599 ff.

[7] Mabel Karydakis, Holland's personal secretary.

[8] A steel mill was located at Paz de Rió in the department of Boyacá.

[9] Spessard L. Holland (D.–Fla.).

[10] Dennis Chavez (D.–N.M.).

[11] Charles P. Taft, Mayor of Cincinnati and President of the Federal Council of Churches of Christ in America from 1947 to 1948.

inspiration of his;[12] he passed it along to Eduardo Santos,[13] who sold it to F.D.R.,[14] who made it U.S. policy. Zuleta also told us that at the San Francisco Conference he observed that it was imperative to get clearance from Alger Hiss or Leo Pasvolsky[15] beforehand in order to get anywhere.

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[12] The Inter-American Treaty of Reciprocal Assistance was signed at Rio de Janeiro, Brazil, on September 2, 1947, by the representatives of the United States and 18 countries of Latin America. It was ratified by the President of the United States on December 12, 1947 and entered into force on December 3, 1948. For text, see 62 Stat. 1681.

[13] Eduardo Santos, President of Colombia, 1938–1942.

[14] Franklin D. Roosevelt, President of the United States, 1932–1945.

[15] Alger Hiss was Director of the Office of Special Political Affairs in the Department of State from 1945 to 1947. Leo Pasvolsky was Chairman of the Coordination Committee of the U.N. Conference on International Organization which met at San Francisco, April 25–June 26, 1945.

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421. Letter From the Secretary of State to the Secretary of Defense (Wilson)[1]

Washington, February 14, 1955.

DEAR MR. SECRETARY: The questions raised in your two letters of January 28, 1955[2] regarding logistical support furnished to Colombian and Thai vessels operating in Korean waters in the service of the United Nations are intimately connected with the general problem of making settlements with a number of nations for logistical support furnished by the Departments of the Navy, the Army, and the Air Force.[3]

The application of the policy of the National Security Council referred to in the letter on Thailand was, as you know, made subject to advice by the Attorney General as to whether new legislation would be required. After consulting the Attorney General, such legislation was drafted last year; however, we understand that the draft bill was not introduced because of certain fiscal questions involving the Department of Defense that could not then be resolved. We also understand that legislation is under consideration for introduction at this session of the Congress, in the event that additional statutory authority is determined to be necessary at this time.

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[1] Source: Department of State, Central Files, 721.5621/1–2855. Confidential. Cleared by ARA, OSA, and FE.

[2] Neither printed. (*Ibid.*)

[3] Documentation on the problem of settlements for logistical support during the Korean conflict is printed in *Foreign Relations,* 1952–1954, volume XV.

Until the contemplated legislative authority is obtained, or the existing authority of the President is clarified, the Department of State considers that it would be impracticable for the Executive Branch to initiate negotiations in cases, such as Colombia and Thailand, where it is known at the outset, from their economic situation or previous discussions with the governments concerned, that the prospects for full payment are poor. To proceed in such circumstances would invite an immediate deadlock that could prove adverse to United States interests in the long run. As you know, National Security Council policy envisaged the possibility of making settlements at less than the full amount where countries cannot reasonably be expected to pay in full.

The office of the Comptroller of the Department of the Army, which has acted as executive agent for the three armed services in connection with the negotiation of settlement agreements, has been kept informally advised by the Department of State of these views and developments. It is understood that the Office of the Assistant Secretary of Defense, International Security Affairs, is also informed as to these matters.

In general, the Department of the Navy has been successful in making special arrangements for settlement of logistical support obligations independently of arrangements for settlement of Army and Air Force claims. Where, however, the Navy has been unable to work out such arrangements, as in the Colombian and Thai cases, it is believed that the question of obtaining a settlement for the logistical support supplied by the Navy will have to be considered in the context of the need to obtain a settlement for the logistical support supplied by the Army and the Air Force.

When the legal basis for dealing with these problems is clarified, the Department, in cooperation with the Department of the Treasury and the military agencies, will be able to take constructive measures on these matters.

Sincerely yours,

For the Secretary of State:
RM
Deputy Under Secretary

422. Memorandum of a Conversation, Department of State, Washington, March 18, 1955[1]

SUBJECT

Military Aid for Colombia; Eximbank mission to study Paz de Rio

PARTICIPANTS

Ambassador Eduardo Zuleta Angel
Assistant Secretary Holland
Mr. Gerberich—OSA

The Ambassador came in at Mr. Holland's request. Mr. Holland informed him that he had done his best to help him in obtaining additional grant military assistance, but has run up against a stone wall. He said he was informed at the Pentagon that the Colombian request (aside from the meteorological station and air bases) totals about $150 million, more than the total amount allocated for the entire Latin American area. If everything the Colombians wanted was figured in, the total would run higher than our entire worldwide military assistance program for fiscal year 1955.

The Ambassador said he was not aware of all this, and asked if Mr. Holland could tell him just how much the Pentagon is willing to give the Colombians. He outlined what they have already been given under the MDA program, which he hinted was a very modest contribution. Mr. Holland said that the Pentagon did not promise to give favorable consideration to any additional grant military assistance; it pointed out that it recently approved the retention by the Korean Battalion of all the equipment furnished to it by the United States, which resulted in a sizable increase in the MDA program for the Colombian Army. He said the Pentagon at the same time said that it would be happy to assist the Colombians as far as possible in obtaining additional military equipment from commercial sources in the United States. The Ambassador asked if it would not be possible to inquire once more at the Pentagon whether it is inclined to give consideration to a certain amount of grant aid in addition. Mr. Holland said he would willingly take up the subject again, but he could not guarantee any satisfactory results.[2]

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[1] Source: Department of State, Central Files, 721.5–MSP/3–1855. Confidential. Drafted by Albert H. Gerberich. Initialed by Holland.

[2] In a meeting with Holland on March 23, Zuleta presented a modified military aid request. The Ambassador stated that Colombia wanted two destroyers and equipment for one marine and two infantry battalions. Holland said he would convey these requests to the Department of Defense. (Memorandum of conversation by Gerberich; *ibid.*, 721.5–MSP/3–2355)

Mr. Holland said he had better news for the Ambassador on the Paz de Rio steel plant.[3] The Eximbank has decided to send a mission to Colombia on March 26th to make a study, and it would be well to make sure that the best informed persons on industrial, commercial and financial matters meet with its members. He also observed that the Ambassador is planning to be in Bogota at the same time, and he could doubtless be of considerable personal assistance. The Ambassador said he would certainly do all in his power to facilitate the mission's labor. He is having lunch tomorrow with Mr. Brand,[4] who is heading the mission.

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[3] In a conversation on March 11 with Holland, the Ambassador expressed his displeasure over delays by the Export-Import Bank in processing Colombia's steel plant loan application. Holland promised to discuss the subject with Bank officers. (Memorandum of conversation by Gerberich; *ibid.*, Holland Files: Lot 57 D 295, Colombia)

[4] Vance Brand, a Director of the Export-Import Bank.

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423. Memorandum From the Secretary of State's Special Assistant for Intelligence (Armstrong) to the Secretary of State[1]

Washington, April 5, 1955.

SUBJECT

Intelligence Note: *Colombia: President's Position Deteriorates*

The position of President Gustavo Rojas Pinilla of Colombia has deteriorated considerably since his seizure of power in the bloodless coup of June 13, 1953, which overthrew the authoritarian Gomez[2] regime. Rojas has lost the unqualified backing of the traditionally influential groups, including the Catholic hierarchy and the long-established but not [*now* ?] weak and divided Liberal and Conservative parties. Moreover, guerrilla activities have flared up again in several parts of the country. His ability to complete his term in office, which runs until August 1958, will depend increasingly on the loyalty of the armed forces.

An important factor in the failure of Rojas to retain the support of non-military groups has been his apparent inclination to perpetuate himself in power. He has repeatedly postponed restoration of constitutional governments, seriously curtailed political freedoms, and instituted drastic press and radio censorship. At the same time he has lavished special favors on the armed forces. He has failed to deal effectively with pressing social and economic problems or to implement previously announced reforms. Moreover, corruption among government officials has become widespread.

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[1] Source: Department of State, Central Files, 721.11/4–555. Confidential.

[2] Laureano Gómez, President of Colombia, November 1949–June 1953.

PA

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424. Memorandum From the Director of the Office of South American Affairs (Atwood) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, May 11, 1955.

SUBJECT

Defense Views Regarding Additional Grant Military Assistance for Colombia

With regard to the question of additional grant military assistance for Colombia, which you raised during a recent staff meeting, there are recapitulated below the questions we have asked Defense regarding this subject and the replies we have received.

1. Our letter of November 15, 1954[2] requesting the views of Defense regarding the FY 1956 Latin American program stated:

> "The Department of State desires to know whether the Defense Department believes that it would be in the United States military interest to broaden Colombia's present mission in hemisphere defense, as set forth in the secret bilateral military plan with Colombia,[3] and to provide Colombia with additional grant military assistance for that purpose. In view of the fact that Colombia was the only Latin American country which contributed troops for the United Nations action in Korea, the Department of State would support a recommendation by the Defense Department that the Congress be requested to appropriate funds necessary to increase the Colombian program, provided it is determined in the United States military interest to do so."

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[1] Source: Department of State, Central Files, 721.5-MSP/2-455. Secret.

[2] For text, see *Foreign Relations* 1952–1954, vol. IV, p. 176.

[3] A Mutual Defense Assistance treaty was signed at Bogotá on April 17, 1952. For text, see 3 UST (pt. 3) 3690. For information on the content of the secret military plan, see Document 438.

2. In a follow-up of April 1, 1955,[4] we informed Defense:

"The Department of State believes that the Latin American grant assistance program should continue during the next fiscal year to be directly contingent upon the finding by the Defense Department of a United States military requirement for Latin American military units capable of executing hemisphere defense missions, unless the most exceptional conditions, such as those now existing in Guatemala, dictate that assistance on a broader scale be provided.

" . . . [5] The Department of State would appreciate receiving the views of the Defense Department with regard to the advisability of providing this type of assistance (combat engineering battalions), as part of the hemisphere defense program, to Paraguay, Guatemala, Bolivia, and especially to Colombia, which believes it should receive additional grant assistance necessary to perform a broader role in hemisphere defense, on the ground that Colombia was the only Latin American country which contributed military forces for active combat in Korea."

3. In reply to the two above letters, the Defense Department on April 20 stated:

"Based upon the recommendations of the Joint Chiefs of Staff, the Secretary of Defense approved additional grant aid for Colombia, on 20 October 1954, in order to permit the Colombian infantry battalion to retain its U.S. furnished equipment. The battalion has been entered in hemisphere defense force objectives for Colombia. Annex "A" of the Bilateral Military Plan between the Government of Colombia and the U.S. was amended on 5 November 1954, to include the infantry battalion. (Copy of amendment is attached.)[6] However, it is understood by Colombia that the United States is under no obligation to provide any support for the battalion beyond the equipment and matériel transferred with the Colombian unit from Korea to Colombia. At this time there is no Western Hemisphere defense requirement for additional forces from Colombia.

"With respect to developing combat engineering battalions in certain Latin American countries, as outlined in the final paragraph of the 1 April 1955 letter from your Department, the views of this Department on additional assistance to Colombia and Guatemala are expressed above. However, the general question of supporting this type of unit in Latin American countries is being referred to the Joint Chiefs of Staff for comment."

4. While our November 15 letter was being considered by the Defense Department we transmitted to Defense, through routine channels, a copy of a Colombian note requesting substantial grant assistance and received the attached letter of February 4, 1955 in reply.[7] The concluding paragraph said: "In light of the foregoing, the

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[4] For text, see vol. VI, Document 21.

[5] Ellipsis in the source text.

[6] Not attached to the source text and not found in Department of State files.

[7] Not attached to the source text.

Department of Defense cannot consider favorably the furnishing of all or any of the additional grant military assistance requested by Colombia."

5. This week we informally inquired of Defense, at the working level, whether the two negative replies mentioned above are considered by Defense to represent its definitive position on this subject. We were informed that any formal State Department request to Defense for reconsideration of the case would be most unlikely to result in a change of view. Whatever may have been recommended by the U.S. MAAG in Colombia the above makes it clear that the desirability of providing additional grant assistance to Colombia has received full consideration by the Joint Chiefs of Staff and other parts of the Defense Department and that we now have a firm military decision on the question.

Recommendation

I recommend that you inform Ambassador Zuleta that we have checked again with Defense and that Defense maintains a firm negative position.

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425. Telegram From the Ambassador in Colombia (Bonsal) to the Department of State[1]

Bogotá, May 18, 1955—7 p.m.

385. Reference Embassy telegrams 367[2] and 379.[3] Following telephone conversation this morning with Atwood, I obtained appointment with President Rojas who received me at 4 this afternoon. I explained situation re use of grant and reimbursable MDAP material, referring particularly to items set forth in numbered paragraphs 1, 3 and 4 of Embassy telegram 367. After reiterating to

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[1] Source: Department of State, Central Files, 721.00/5–1855. Secret; Limit Distribution.

[2] In paragraph 1 of telegram 367 from Bogotá, May 12, Ambassador Bonsal stated that the Colombian Air Force was interested in expediting shipment of 50 napalm bombs bought from the United States. In paragraph 3 Bonsal reported that the Colombian Air Force was using aircraft supplied by the United States in bombing missions against guerrilla forces. In paragraph 4 the Ambassador stated that guns supplied by the United States were to be used against the Tolima guerrillas. He said that American military advisers had lodged informal protests against this use of the equipment. (*Ibid.*, 721.00/5–1255)

[3] Telegram 379 from Bogotá, May 17, not printed. (*Ibid.*)

President awareness of fine results he and his government have accomplished in clearing up public order situation here and returning former guerrillas to peaceful pursuits, I stated that cases I had mentioned raised potential problem of impact on US public opinion in addition to question of agreed use of grant and reimbursable aid.

President expressed understanding of and appreciation our position. He stated, however, that he is wholly convinced of Communist inspiration, support and leadership of guerrilla forces in Tolima area. He recognizes that there are other factors including the incentive of getting hold by violent means of the $10 million coffee crop in the area. But he insists that Communists, many of them of foreign extraction, are at the root of the trouble. He mentioned Lister, a leader in the Spanish Civil War, said to have been recently killed in Tolima (any data Department has on Lister's whereabouts would be appreciated) and also Richards, an international Communist, and others of German, Czech and even Russian origin.

President estimates guerrilla forces at about 2,000. He says they have with them large number hostages including women and children. He states that objective of armed forces is gradually to surround guerrillas, to force them to give up hostages and, if possible by persuasion, to lead them eventually to lay down their arms. He recognizes extreme importance of avoiding, if at all possible, any drastic military action and to follow social-economic policies which have given such good results in other cases.

Military operations are being conducted under conditions of rigorous press censorship; President indicated current attempt is to surround guerrillas at point called (La Colonia), few kilometers from Villarica.

President said that he did not think it would be necessary to dispatch any further US-furnished equipment to area. He did not however, feel it incumbent on him to defend or justify use which had already been made. . . . President stated conviction that Russians are strongly interested in Colombian situation and are actively supporting activities which they hope will lead to overthrow of government here.

Whole tone of conversation friendly. Exploratory nature of interview, I did not endeavor to press President for any commitment. I believe, however, that his knowledge of our interest and concern will have useful effect.

It seems to me that we will have to determine future conduct in light of developments unless we decide take rigid legalistic position which I would not recommend. Although fact of my interview with

President known to various Colombian officials, including Foreign Minister,[4] subject matter revealed by me only to President.

Bonsal

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[4] Evaristo Sourdis.

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426. Memorandum of a Conversation, Department of State, Washington, May 19, 1955[1]

SUBJECT

Increased Military Grant Aid Assistance to Colombia

PARTICIPANTS

Ambassador Eduardo Zuleta-Angel of Colombia
Assistant Secretary Holland
OSA—Mr. Atwood

Following brief introductory remarks, Mr. Holland brought up the request made by Colombia for increased grant military aid. He explained fully to the Ambassador the lengthy discussions which had been held with the Department of Defense regarding Colombia's request and regarding the overall military program in this hemisphere. Mr. Holland explained that on three separate occasions the conclusion had been reached that it would be impossible at this time to increase military grant assistance to Colombia. He reminded the Ambassador that the Defense Department considered the alliance [*agreement?*] made to turn over the equipment to the Colombia–Korea battalion as an increase in grant aid. Mr. Holland added that of course this was not the last time that military grant aid assistance to Latin America would be discussed and that he did not feel that the door was completely closed and locked for the future. He did feel, however, that in the light of the extremely careful analyses that had been made regarding the possibility of additional aid to Colombia that it would not be productive to initiate any further discussions at this time. The Ambassador was visibly disappointed but seemed to recognize and appreciate the situation as described by Mr. Holland.

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[1] Source: Department of State, Central Files, 721.5–MSP/5–1955. Secret. Drafted by Atwood.

427. Memorandum of a Conversation, Department of State, Washington, May 19, 1955[1]

SUBJECT

Export of Napalm Bombs to Colombia to be used to Suppress Rebel Guerrilla Forces

PARTICIPANTS

Ambassador Eduardo Zuleta-Angel of Colombia
Assistant Secretary Holland
OSA—Mr. Atwood

Following a discussion of other matters with the Colombian Ambassador, Mr. Holland introduced a situation which had arisen which he felt was extremely serious and one which needed the immediate attention of both countries. He said this situation had arisen in view of an official request from Colombian military authorities for immediate delivery of 3,000 napalm bombs which the Colombian military authorities wish to use in action against the rebel guerrilla forces in Colombia. Mr. Holland described in great detail the intense emotional opposition that would immediately develop in the United States and in most other countries if napalm were used in the way planned by the Colombian military forces. Mr. Holland described the intense opposition which had developed in the United States and throughout the world for that matter when napalm was used in the fighting in the Pacific and in Korea. He drew a very vivid picture of the adverse publicity which would undoubtedly result and the extremely damaging effect this would have on public opinion in the United States in relation to Colombia. He pointed out that people in the United States as a whole were not aware of the guerrilla problem in Colombia and certainly would not feel that any situation existed which would require such drastic action. Mr. Holland was very careful to point out that he did not minimize in the least the Colombian Government's problem and its responsibility for solving it along whatever lines it considered necessary. He said, however, that he felt in all frankness he should advise the Ambassador of what he, Mr. Holland, felt would be the result if this terrifying destructive weapon were used.

The Ambassador was visibly impressed with the seriousness of the situation. He said that he had heard nothing of this previously. He said that he assumed the request for the napalm bombs had come through his office but it must be part of a routine request for military equipment and that he had not given it anything but routine approval. Mr. Holland explained that this had been the case at the time the request was made. The napalm bombs were listed along with other military equipment to be used for training purposes. The Ambassador would immediately call the President of Colombia and report back to Mr. Holland. Mr. Holland indicated that in the meantime the release of these bombs would be held up and that it might be necessary for the United States to revoke the export license. The Ambassador understood this but did not comment.

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[1] Source: Department of State, Central Files, 721.5–MSP/5–1955. Secret. Drafted by Atwood.

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428. Memorandum of a Telephone Conversation Between the Secretary of State and the United States Representative at the United Nations (Lodge), May 25, 1955, 4:48 p.m.[1]

[Here follows discussion of the Secretary's proposed trip to San Francisco to attend the special session of the United Nations, June 20–26, commemorating the tenth anniversary of its founding.]

L. said Larudia (?) [Urrutia] from Colombia was in—apparently Holland told someone no more military aid to Colombia and it is raising hell. L. has a short memo. The Sec. should call Zuleta in. The Sec. thinks that is misrepresented. L. has a written statement. The Sec. said they have been having talks re bombs for the pursuit of guerillas and there was reluctance to give them that type and the Sec. understands the request was dropped. L. said this is for 3 infantry battalions and one Marine battalion. The same day Holland said no, Carney and Ridgway said yes.[2]

[Here follows discussion of Cyprus.]

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[1] Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. Prepared in the Office of the Secretary of State.

[2] On May 26, Dulles telephoned Holland to relay the substance of this conversation with Lodge. Holland confirmed that he had told the Colombians they would not receive additional military assistance and that the Department of Defense was still considering the matter. (Memorandum of telephone conversation, May 26; *ibid.*)

429. Memorandum From Byron E. Blankinship, Officer in Charge of North Coast Affairs, to the Director of the Office of South American Affairs (Atwood)[1]

Washington, May 27, 1955.

SUBJECT

Colombian Request for Additional Military Grant Aid

I have reviewed the files with a view of discovering new or important points which might be presented to Mr. Holland in preparation for his discussion with Dr. Milton Eisenhower. I have found none with which you are not already familiar, but I summarize those which have already been discussed:

1. Current Military Grant Aid Program

The bilateral military plan with Colombia designates the following Colombian units:

(a) one anti-aircraft battalion. Deliveries of equipment for this battalion are substantially completed.

(b) one infantry battalion. This was the Korean battalion. Its equipment, valued at roughly half a million dollars, was returned to Colombia with the unit in November 1954, at which time this battalion was designated in the secret bilateral plan as a unit available for hemispheric defense.

(c) one fighter squadron, 14 F–47's promised, have already been delivered.

(d) one squadron of light bombers. Seven B–26's of 14 scheduled already delivered to Colombia.

(e) a small naval program involving ship modernization has been carried out as promised.

2. Colombian Utilization of Grant Aid

U.S. military attaché reports indicated that until at least recently Colombia was not making effective use of the units and training, because:

(a) the Colombians were not assigning adequate number of personnel to the anti-aircraft unit;

(b) personnel trained in U.S. service schools were transferred away from the designated units;

(c) the infantry battalion as well as the aircraft battalion was dispersed, broken up and assigned tasks which greatly decreased its effectiveness and;

(d) senior commanders and staff officers have little personal interest or understanding of the anti-aircraft unit. However, more effective use seems to be made of training and equipment assigned to the Colombian Air Force and Navy.

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[1] Source: Department of State, Central Files, 721.5–MSP/2–255. Secret.

3. Recent Requests

In November 1954 Colombia submitted a request for equipment referred to by Colombian officers as "a letter to Santa Claus". This request would have involved a grant aid of $135 million, more than is scheduled for the entire Latin American military assistance program. At least one ranking Colombian officer readily admitted that the economy of Colombia could not sustain such a grant assistance program even if all of the equipment were *given* to Colombia.

Recently the total requests have been reduced by Ambassador Zuleta to equipment for: two battalions of infantry, one battalion of Marines and two destroyers.

Recommendation

Zuleta should be told clearly that sympathetic consideration has been given to the Colombian requests but under present military planning there is no room for additional grant aid as requested. He should also be told that evaluations of the use already made by Colombia of MDAP equipment indicate that Colombia itself could take measures to make much more effective use of its equipment already on hand.

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430. Telegram From the Acting Secretary of State to the Embassy in Colombia[1]

Washington, June 2, 1955—5:58 p.m.

280. Embtel 404.[2] Ambassador Zuleta advised Department that Rojas advised him:

1. No intention use napalm against guerrillas as intended exclusively training purposes.

2. Any officer contemplating use against guerrillas acted irresponsibly without authority.

3. Zuleta to cancel order.

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[1] Source: Department of State, Central Files, 721.00/6–55. Secret.

[2] Not printed.

Zuleta's promised written confirmation these points not received. Zuleta also agreed return export license.[3]

Hoover

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[3] In a memorandum to Holland on September 15, Henry Dearborn reported that a Colombian official had continued to request the delivery of the napalm bombs. In a typewritten note dated September 18, which appears at the bottom of this memorandum, Holland indicated that he had spoken to Zuleta on September 17. According to the note, Zuleta told Holland that he would have the official cancel the napalm order, as the Colombian Government did not want the bombs. (Department of State, Holland Files: Lot 57 D 295, Colombia)

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431. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, June 2, 1955.

SUBJECT

Additional Grant Military Aid to Colombia

Discussion:

The Colombian Government has for some time been pressing for an increase in the amount of military grant aid from the United States. Colombia has received or is receiving training and equipment for an anti-aircraft battalion, four naval vessels, two air squadrons, and an infantry battalion. We have taken the position that a decision to provide Colombia with additional grant assistance should depend in the first instance upon a determination by the Defense Department that this is warranted in a military sense. We have emphasized, however, that due consideration be given to Colombian participation in the Korean hostilities. In response to our queries, the Defense Department, on two separate occasions, in communications signed by Admiral Davis, Deputy Assistant Secretary, has indicated that there is no Western Hemisphere defense requirement for additional forces from Colombia. In view of this conclusive position, we informed the Colombian Ambassador that present planning does not contemplate additional grant military aid to Colombia.

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[1] Source: Department of State, Central Files, 721.5–MSP/6–255. Secret. Drafted by Jamison; transmitted through the Executive Secretariat; and initialed by William B. Macomber, Jr., the Secretary's Special Assistant.

Advised of this decision, the Colombians have approached Dr. Milton Eisenhower, Ambassador Lodge, Mr. Nelson Rockefeller, Admiral Carney and others, in an apparent effort to force reconsideration on political grounds. In the approach which was the subject of Ambassador Lodge's letter to you (Tab B)[2] the fact that a considerable amount of grant aid has been given to Colombia was ignored. It is my view that the Colombians should not be permitted to conclude that they can obtain from approaches outside the Department what they cannot obtain from normal procedures.

It is also my view, however, that much of the difficulty with Colombia stems from a much bigger problem: the generally unsatisfactory nature of Defense Department attention to the problems of our military relationship with Latin America. At the heart of this problem lies the question of the extent to which Latin American military cooperation is able to make a military contribution in the national security interest of this Government or the extent to which such capability can be developed. A memorandum setting forth details of this problem and suggested course of action is in preparation for your consideration.

Recommendations:

(1) That you authorize me to suggest to those whom the Colombians have approached that they indicate their interest in receiving the views of Colombia, and that the information has been referred to the Department of State.

(2) That you authorize me to advise the Colombian Ambassador that we have received the reports sent us by the various persons he interviewed; that the information he supplied will be fully considered, and that, as was previously indicated to him, we are following closely the possibility that the Department of Defense may determine to make a complete review of military aid to Latin America.

(3) That Ambassador Bonsal see the President of Colombia and confirm directly to him the position stated to Ambassador Zuleta.[3]

(4) That you sign the attached letter to Ambassador Lodge (Tab A).[4]

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[2] Not found with the source text. (*Ibid.*, 721.5–MSP/5–2555)

[3] Handwritten notations beside paragraphs 1, 2, and 3 indicate that the recommendations were carried out.

[4] Not found with the source text; it is printed *infra*.

432. Letter From the Secretary of State to the United States Representative at the United Nations (Lodge)[1]

Washington, June 3, 1955.

DEAR CABOT: I appreciate your thoughtful letter of May 25 reporting Ambassador Urrutia's call upon you regarding a statement made by Assistant Secretary Holland to Colombian Ambassador Zuleta Angel.[2] I can assure you that we have the very highest regard for the invaluable support Colombia and its representatives have given to policies of the highest importance to us.

It would appear from your letter and from the memorandum prepared by Ambassador Urrutia that the United States had failed to cooperate with Colombia under the military assistance program. This, of course, is not the case. Following the UN and OAS Resolutions on collective measures,[3] the United States proposed and offered to sign bilateral military assistance agreements with a number of Latin American governments, and to provide grant military assistance pursuant thereto. Such a bilateral agreement was entered into with Colombia on April 17, 1952. . . . With regard to the antiaircraft battalion, deliveries of grant aid equipment have been completed. The infantry battalion was the one that Colombia had in Korea and its equipment valued at roughly one-half million dollars was turned over officially to Colombia in November 1954. With regard to the fighter squadron, which involved 14 planes, all have been delivered. About one-half of the bombers for the light bomber squadron have also been delivered. The naval modernization program has been carried out as agreed.

Assistance for three infantry battalions, one infantry marine battalion and two naval units mentioned in Ambassador Urrutia's memorandum would involve very extensive grant aid in addition to that described above.

Ambassador Urrutia's memorandum indicates that United States military and naval missions and Admiral Miles[4] have recommended these units. The Department on two occasions has asked for the formal opinion of the Defense Department regarding additional military assistance for Colombia and has made a number of informal approaches. The answer in each case has been negative. The concluding paragraph of a letter from the Defense Department on February 4, 1955[5] indicated that the Department of Defense cannot consider favorably the furnishing of all or any of the additional military assistance required by Colombia. The reason given for this decision was that the Colombians are neither satisfactorily utilizing grant equipment already furnished them under the Military Assistance Agreement with Colombia nor could they be expected properly to support additional equipment in any volume.

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[1] Source: Department of State, Central Files, 721.5–MSP/5–2555. Secret; Personal. Drafted by Atwood.

[2] Not printed. (*Ibid.*)

[3] Apparent references to U.N. General Assembly Resolution 377(V) of November 3, 1950 (commonly called "Uniting for Peace") and to the Inter-American Treaty of Reciprocal Assistance (commonly called the Rio Treaty) of September 2, 1947. For text of the U.N. resolution, see *Yearbook of the United Nations 1950,* pp. 193–195. For text of the Rio Treaty, see 62 Stat. 1681.

[4] Rear Admiral Milton E. Miles was Director of Pan-American Affairs, Department of the Navy. He had been a delegate to the Inter-American Defense Board until 1954.

I can assure you that thorough and sympathetic consideration has been given to all of the Colombian requests. It is possible, and the Assistant Secretary so advised the Colombian Ambassador, that a complete survey will be made by the Defense Department of the United States military aid program and that this might result in some change in the present situation. If you feel that Ambassador Urrutia is not aware of the actual assistance which has been given to Colombia as outlined in this letter, I suggest that you may wish to pass it on to him in general terms and without mentioning specific deliveries or the secret plans.

Sincerely yours,

John Foster Dulles[6]

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[5] See footnote 7, Document 424.

[6] Printed from a copy which bears this stamped signature.

433. Memorandum of a Conversation, Department of State, Washington, July 1, 1955[1]

SUBJECT

Colombian Economic Situation

PARTICIPANTS

Robert L. Garner, IBRD
Albert Waterston, IBRD
Burke Knapp, IBRD
Jack DeBeers, Treasury
Assistant Secretary Holland
Mr. Blankinship, OSA

Mr. Garner stated that the IBRD had always regarded the Colombian Government as one of its best clients. He said that the Bank had loaned Colombia $90 million for carefully considered projects and that it had sent several missions to Colombia to study and advise the Colombian Government on various problems. He said that the Bank had been impressed with the sound financial and economic policies of the Colombian Government. Recently, however, the Bank had taken a serious view of Colombia's situation which it found steadily deteriorating. The Bank had concluded that this was the result of poor administration, faulty policies and mistakes of the present Colombian Government. He said that the Government was recklessly seeking credits in France, from U.S. banking circles and elsewhere totalling around $190 million and that much of this credit was to be used for projects of doubtful economic value. Mr. Knapp said that the Government was administering its financial affairs inefficiently, particularly in certain areas where the Army had placed military officers with inadequate economic background in positions of management. He cited specifically the Anchicagá project in Cauca[2] where the garrison commander in Cali and another Colombian Army officer, both inexperienced in economic affairs, now constitute two of five men on the Board of Directors of the project. Mr. Garner stated that a large amount was being spent on the military budget and that some of the projects, such as roads, were being built essentially for strategic reasons and were uneconomic. He said that there was evidence that the Government was losing confidence in itself and that the IBRD concluded that if the present trend continued at its present pace Colombia would be as badly off in six months as Brazil, that is little short of bankruptcy.

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[1] Source: Department of State, Central Files, 821.10/7–155. Confidential. Drafted by Blankinship.

[2] This was an electric power facility which supplied the departments of Valle and Cauca.

Mr. Garner concluded that Colombia was by no means lost and that the situation could be saved. He said that he was proceeding to Colombia to talk to President Rojas and that he hoped to have some influence in reversing the trend.[3] In answer to Mr. Holland's question he stated that he would not go so far as to state that the Bank would grant Colombia no more loans. He said that with some modifications in the Government's policy and administration the IBRD was prepared to complete the road program, the Magdalena railroad project and certain others which would be of full utility only when completed.

Mr. Garner said that he disliked to comment upon the Paz de Rio steel mill project because of his well-known opposition to the project from the beginning. However, he said that the project was little short of a disaster as it was being badly managed and was in dire need of a foreign management firm to pull it together. Mr. Knapp said that the steel mill was now actually attempting to obtain the equivalent of $100 million more to place in the project as follows: $28 million from the Eximbank, $40 million from French banks plus the equivalent of $20 or $25 million in Colombian currency. The Bank officials agreed that they did not see how the steel mill could ever be made an economic project.

Finally, Mr. Garner referred to President Rojas' personal conduct. He said that he was guilty of accepting excessive gifts such as 2,000 head of cattle and a ranch or two and that there were stories of his complete lack of understanding of the Colombian financial problem and of his countenancing extensive corruption among Colombian officials. He said that Villaveces,[4] the Minister of Finance, was forever selling the President on questionable projects on the promise that he would take care of the finances and be able to raise the money. Mr. Holland commented that he was gravely concerned about the excessive sums being spent by several Latin American countries on their military budgets.

Mr. Garner and Mr. Knapp explained that the extension of numerous very "soft" loans and unsound loans by French banks with the guarantee of the French Government was one of the worst elements with which the IBRD had to contend and that it proposed to take this question up with the French to the end of encouraging a more reasonable French loan policy.

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[3] Garner, Vice President of IBRD, visited Colombia in July. When he returned to Washington, he spoke on July 7 to Holland, and told him that he had received from President Rojas an agreement to make no future credit commitments until the completion of an IBRD field study of Colombia's financial situation. (Memorandum of telephone conversation by Holland; Department of State, Central Files, 821.10/7–755)

[4] Carlos Villaveces.

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434. Letter From the Deputy Under Secretary of State (Murphy) to the Acting Assistant Secretary of Defense for International Security Affairs (Davis)[1]

Washington, July 5, 1955.

DEAR ADMIRAL DAVIS: For a number of months, representatives of the Government of Colombia including the President of that country, have strongly complained that the grant military assistance provided to Colombia has been insufficient to permit Colombia to assume a military role in hemisphere defense commensurate with its legitimate aspirations and military capabilities. Colombia has based a very large part of its argument for additional grant assistance on the ground that it has a legitimate and preferential claim to additional assistance, because Colombia was the only Latin American country which contributed military units for the United Nations action in Korea.

The Defense Department, in a letter of February 4, 1955,[2] addressed by you to Mr. Frederick E. Nolting, Jr., advised the State Department that it could not consider favorably the furnishing of all or any of the additional assistance requested by Colombia. This letter stated further that the Department of Defense had cooperated in permitting the retention of U.S. furnished equipment by the Colombian infantry battalion in Korea, and pointed out that such action had resulted in a sizable increase in the total amount of grant assistance provided the Colombian Army. These views of the Defense Department were fully communicated by the State Department to the Colombian Government.

A telegram of July 1, 1955[3] from our Ambassador in Bogota states, in part, as follows: (a) the U.S. Government has taken credit for the fact that weapons, vehicles and other equipment of the Colombian battalion which fought in Korea were turned over to the Colombians; (b) the fact is that the equipment provided the Colombians is not that which they had used in Korea; (c) equipment apparently was hastily shipped from Pusan depots; (d) it reached Colombia in very bad condition with a high percentage of it unserviceable, as indicated by an inspection made by a technical team from the Caribbean Defense Command in the Canal Zone last March; (e) since then, no remedial action has been taken in spite of frequent contact between U.S. military missions in Colombia and the Caribbean Defense Command.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Colombia. Drafted by Spencer on July 1 and by Holland and Murphy on July 2.

[2] See footnote 7, Document 424.

[3] Not further identified.

I feel that in the interest of maintaining harmonious relations with the Government of Colombia you will be as anxious as I to ascertain the facts in this case, so that, if the information provided by the Embassy should be confirmed, immediate action can be taken to repair, replace or supplement U.S. equipment now in possession of the Colombian battalion. In view of the obvious political implications of this matter, I would suggest, further, that the Defense Department authorize the State Department to inform the Colombian Government at the earliest possible moment that a U.S. military investigation will be made of the equipment provided the Colombian battalion.

Sincerely yours,

Robert Murphy[4]

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[4] Printed from a copy which bears this typed signature.

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435. Memorandum From the Director of the Office of International Financial and Development Affairs (Corbett) to the Assistant Secretary of State for Economic Affairs (Waugh)[1]

Washington, August 22, 1955.

SUBJECT

Proposed Loan to Colombia

Last week you mentioned that a telegram had gone out which might have given undue encouragement to Colombia about the prospects of receiving a balance of payments credit. At that time I assured you that no such telegram had gone out. I learned subsequently that a message[2] had been sent on the day I was not in the Department. Looking at this message, I can see that rather more encouragement than I would have thought advisable had been given our Embassy in Bogota, and, further, the Embassy had been authorized to indicate that the principal reason for our reluctance to consider a balance of payments credit was based on lack of information.

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[1] Source: Department of State, Central Files, 821.10/8–2255. Official Use Only.

I believe this message was a mistake and I have been further confirmed in this view by receipt of information from Frank Southard. According to Southard, who bases his information on a very recent consultation with responsible officials from the Central Bank of Colombia, the Colombian internal financial situation is under fairly good control, imports have been cut back to about $30 million a month and dollar income is expected to be about $50 million a month for the remainder of the year. The Colombians believe this situation will permit them to work off the backlog over the coming months. The pressure, therefore, for the backlog credit seems to come from the Minister of Finance, Villaveces.

The Colombian estimate of dollar income in the coming months is based upon the price of Colombian coffee not falling significantly below 55 cents a pound. In turn, whether or not there is a further fall in coffee prices is very much dependent upon the coffee and foreign exchange policy of Brazil.

In conclusion, I believe it would be desirable to send out another message to our Embassy in Colombia advising them of this recent information which we have received from Southard and suggesting that they discourage the Colombians from seeking at this time a balance of payments credit. This is all the more important in view of the survey which the IBRD now has under way in Colombia.

If you agree with the above recommendation, I believe an indication from you to Holland to this effect would be desirable.[3]

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[2] To Bogota, 57, 8/16/55. From Bogota, 82, 8/15/55. [Footnote in the source text. Neither printed. (*Ibid.*, 103–XMB/8–1655 and 103–XMB/8–1555, respectively)]

[3] A handwritten notation on the source text reads: "Let us see what develops. I hesitate to stir any more on this project right now. SW".

436. Memorandum of a Conversation Between the Secretary of State and the President, Washington, August 23, 1955[1]

. . . .

I referred to the situation in Colombia, where the President had shut down the newspaper *El Tiempo.*[2] The President authorized Ambassador Bonsal to approach the President of Colombia and to indicate the concern in the United States over what seemed to be arbitrary action interfering with reasonable freedom of the press. President Eisenhower felt that this should be done very carefully, putting the emphasis upon informing the President of Colombia as to the state of feeling which was being created in the United States on the part of the American people, a feeling which would make it difficult for the Government to maintain the close relations it desired with the Government of Colombia. He thought the emphasis should be on the popular reaction here rather than on a desire of the President of the United States to interfere in Colombian affairs.[3]

. . . .

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[1] Source: Eisenhower Library, Dulles Papers, Meetings with the President. Top Secret; Personal and Private. Extract. Drafted by Dulles.

[2] The Bogotá daily newspaper was closed on August 4, 1955.

[3] This portion of the memorandum was forwarded to Holland on August 24 in a memorandum from Hanes. (Department of State, Holland Files: Lot 57 D 295, Colombia) In telegram 74 to Bogotá, August 23, Holland instructed the Embassy to convey President Eisenhower's views on the *El Tiempo* incident to President Rojas. (*Ibid.*, Central Files, 721.11/8–2355)

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437. Telegram From the Ambassador in Colombia (Bonsal) to the Department of State[1]

Bogotá, September 3, 1955—9 a.m.

145. Eyes only for Secretary Holland. Re Deptel 74.[2] President Rojas Pinilla received me yesterday afternoon. I delivered to him oral message from President Eisenhower along lines reference telegram

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[1] Source: Department of State, Central Files, 721.11/9–355. Secret.

[2] Telegram 74, August 23, authorized Bonsal to deliver President Eisenhower's views to President Rojas. (*Ibid.*, 721.11/8–2355)

and my letter to Holland of August 16.[3] I stressed the personal nature of message, friendly motivation, non-intervention, and continuance by executive of present policies as background for statement that President Eisenhower concerned at serious deterioration US public opinion regarding Colombia.

President Rojas expressed cordial appreciation of President Eisenhower's motives and asked that his personal greetings be transmitted to President. He believes only *Tiempo* side of question known to American public. He then proceeded to make following series of statements:

(a) There is evidence, based on confessions of arrested guerrillas, that Santos[4] was engaged personally in financing guerrillas in Suma Paz area. (I find it very difficult to believe this.)

(b) Columns of *Tiempo* were probably being used to convey coded information to guerrillas.

(c) After *Tiempo* had insulted President at time of his Quito visit, indignant armed forces would have closed down *Tiempo* if President had not done so. President added that in fact if he had not closed *Tiempo,* armed forces might have thrown him out of Presidency. When I raised eyebrows at this, he said it might be somewhat of an exaggeration.

(d) *Tiempo* will not reappear for present. It might have done so if Santos had not backed Garcia Pena's[5] insult to President. However, new paper *Informacion* will be published on *Tiempo*'s presses by Garcia Pena's son-in-law, Jaime Posada and *Espectador* will probably become morning paper. Censorship will continue on present basis.

(e) Garcia Pena's insult to President was particularly serious in view international situation. President believes that if Ecuador should be "invaded" by Peru, Colombia would be obliged assist Ecuador, in accordance with Colombia's international commitments. Object of President's trip to Ecuador was to emphasize Colombian solidarity and determination to comply with obligations to keep peace. He thinks this deterrent to possible Peruvian aggressive intentions. President said that obviously if Ecuador were to attack Peru no such obligation to Ecuador on part Colombia would exist and he intimated that Colombia's obligations are no different than her obligations as member of OAS and United Nations to fight aggression anywhere. He mentioned Korea as case in point.

(f) President stated his objective, which he confident of reaching, was "decent press" in which government and its officials would not be scurrilously attacked. He stated official newspaper will possibly appear by end of this year under management of two liberals and two conservatives. (General Calderon Reyes,[6] according to President, is out of this picture.)

(g) As matter of background which might be unfamiliar to me President recalled that in 1938 at beginning of Santos administration,

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[3] Not further identified.

[4] Eduardo Santos, owner of *El Tiempo,* was President of Colombia, 1938–1942.

[5] Roberto García Peña, editor of *El Tiempo.*

[6] Rafaél Calderón Reyes, Colombian Chief of Staff.

Bogota press was strongly attacking armed forces. A group of young officers decided "to do something about it." Rojas, then a captain, was in group designated to take care of *Tiempo*. Only an order by Santos to papers to cease attacking armed forces prevented violence at that time.

President convinced this action in closing *Tiempo* overwhelmingly supported here. He believes that "plebiscite" he has received more overwhelming than that which took place following June 13, 1953. President is wholly impervious to our ways of thought on press matters. He was cordial throughout interview and we parted in friendly fashion with President reiterating his admiration and friendship for President Eisenhower and assuring me he would be delighted to see me at any time.

In his present frame of mind, Rojas probably less impressed by deteriorating US public opinion than by reiteration of US policy of non-intervention and determination continue current programs.

However, as US public and official opinion begins affect US executive and private decisions, his attitude may change. He is currently and, in my judgment, largely sincerely, playing part supremely self-confident ruler. He truly believes that liberal politicians, "intellectuals" and newspapermen have caused and would, if uncontrolled, continue to cause bloodshed and anarchy. He has no evidence of effective opposition within country to his recent actions. He is unaware that passive attitude of his opponents is reflected in lukewarmness of many of his supporters and officeholders. He can, however, rely on armed forces to keep order in cities and to cope with guerrillas.

And coffee is currently selling in good quantity at 67 cents.

Bonsal

438. Instruction From the Acting Secretary of State to the Embassy in Colombia[1]

No. A–51 *Washington, September 7, 1955.*

SUBJECT

Request of Colombia for Additional Grant Military Assistance

The Department refers to the Embassy's telegram No. 431 of June 17, 1955,[2] which suggested that the Embassy be provided as soon as possible with a concise written statement, which might be delivered to the Colombian President or Foreign Minister, setting forth the U.S. position with regard to Colombia's request for additional grant assistance under the bilateral military assistance agreement between the U.S. and Colombia. The Department's interim reply (telegram No. 322 of June 27, 1955)[3] indicated that the preparation of a written statement for submission to Colombia was being deferred until the Defense Department had reviewed the question of whether the provision of additional grant military assistance to Colombia would be in the U.S. military interest.

The Department of Defense has indicated that the attached statement reflects the views of the U.S. Joint Chiefs of Staff with regard to the provision of additional grant assistance to Colombia. The Embassy is authorized, in its discretion, to transmit this statement to the Colombian President or Foreign Minister.

Hoover

Enclosure

I have the honor to communicate to your Excellency the desire of my Government that I discuss with you, in the context of the information provided below, the request of the Government of Colombia for additional grant military assistance, and also, that I review with you the progress which both of our Governments have made to date in fulfillment of the objectives set forth in the Military Assistance Agreement between Colombia and the United States.

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[1] Source: Department of State, Central Files, 721.5–MSP/6–1755. Secret. Drafted by Spencer.

[2] Not printed. (*Ibid.*)

[3] Not printed. (*Ibid.*) On June 27, a draft statement on this subject by Spencer was forwarded to Holland under cover of a memorandum from Dearborn. In this memorandum, Dearborn recommended that the Department inform the Embassy in Bogotá that the preparation of a statement on additional military assistance was being deferred pending reconsideration of the Colombian case by the Joint Chiefs of Staff. (*Ibid.*)

The Mutual Security Program being carried out by the Government of the United States in collaboration with other free nations is worldwide in its perspective. It has the global objective of developing the defensive strength of the free world, and especially as a matter of first priority, developing the defense capabilities of those free nations located on the perimeter of the Soviet orbit which are directly and continuously exposed to the threat of Soviet military aggression. In view of the worldwide objectives of this program, the defense needs and problems of the United States and individual nations in the free world must be considered from a global or broad regional standpoint.

Taking into account the widespread foreign commitments of the United States and the exceedingly large outlay of U.S. funds required annually to meet such commitments and to improve the defense capabilities of U.S. armed forces, it has been necessary to adjust the Latin American program to: (1) the availability of U.S. funds; (2) the specific military capabilities of individual American Republics for making a military contribution of the type envisaged by the planning of the Inter-American Defense Board; and (3) the requirements of collective hemisphere defense. Obviously, it would be impracticable and impossible for equal military assistance to be granted within these general criteria to every country participating in the program.

With respect to the program of mutual assistance now being carried out by the Governments of Colombia and the United States, it was mutually agreed, in the bilateral Military Assistance Agreement and the secret military plan signed at Bogota on April 17, 1952, that Colombia would develop and maintain the following military units for designated collective hemisphere defense missions and that grant assistance made available by the U.S. would be provided exclusively for such units: Army: 1 AAA (AW) Battalion; Navy: 2 Destroyers; 2 Patrol Craft; Air Force: 1 Fighter Bomber Squadron (UE 25 A/C); 1 Light Bomber Squadron (UE 16 A/C).

In a subsequent amendment to the secret military plan, it was mutually agreed that the Colombian infantry battalion which had participated in the United Nations action in Korea should be included among those units designated and maintained by Colombia for the performance of hemisphere defense missions under the terms of the bilateral agreement. The Government of the United States agreed that this battalion, which had served with valor and distinction in Korea, should retain the U.S. military equipment in its possession without reimbursement by Colombia.

Since April 17, 1952, the date on which the bilateral agreement entered into force, the U.S. has delivered 83 percent of the basic equipment considered necessary for the operation of the units specified above, and in addition, has provided training in the use of [and] maintenance of such equipment. Colombia's program of grant assistance is one of the largest in financial value of the American Republics.

Considerable additional effort will be required at the military level, if the Colombian units now designated for hemisphere defense are to attain the level of efficiency and capability required for the effective performance of the agreed missions. The attainment of this objective will require effective Colombian utilization of U.S. assistance provided. However, the provision of additional U.S. training and equipment for the Colombian forces committed to hemispheric defense will be subject to Congressional action, and the attitude of Congress with respect to future aid, in view of the existing U.S. commitments worldwide (i.e., Formosa, Korea, Indochina, etc.).

The United States Government regrets that it is unable to furnish the Colombian Government with the grant assistance desired for the development of additional hemisphere defense units. In view of widespread U.S. commitments to provide military assistance and limited U.S. funds, it has been necessary for the United States Government, in reaching this decision, to weigh the strategic military considerations bearing on the Colombian request against strategic military considerations of a global nature. While a substantial change in the world situation may in the future require that adjustments be made, for strategic military reasons, in the programs now being conducted in a number of countries throughout the world, the Government of the United States cannot, under present conditions comply with the request of the Colombian Government.

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439. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Colombia (Bonsal)[1]

Washington, September 22, 1955.

DEAR PHIL: Referring to your letter of September 5,[2] I think your talk with Rojas about *El Tiempo* was well worth the try even though there have been no visible results. If it did nothing else, it made clear to him the seriousness with which we view the steps he has taken. This knowledge itself may work on him over a period, though I am not overly hopeful.

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[1] Source: Department of State, Central Files, 611.21/9–555. Secret; Eyes Only.

[2] In this letter, Bonsal stated in part: "I am not too happy about the result of my interview with President Rojas when I transmitted President Eisenhower's message to him. Rojas was pleased about the non-intervention and continuation of present U.S.

There are certain interesting parallels between the cases of *El Tiempo* and Argentina's *La Prensa* which may well have already attracted your attention. One is that the closing of each of these great papers was received with remarkable apathy by the general public in both countries.[3] In fact, they sank, as you say, without a splash. This was disillusioning to many who had assumed that the Argentines and Colombians would put up a stiff fight to defend the periodicals which had brought so much distinction to their nations. A second parallel is in the reaction to foreign criticism of the respective Presidents. Peron brought a deluge of attacks from the foreign press down on his head but even though this continued for a period of many years it had no effect whatever toward persuading him to restore *La Prensa* to Gainza Paz.[4] Judging from your conversation with Rojas, he likewise has been impervious to adverse foreign commentary and even to the observation that continued repression of *El Tiempo* might unfavorably affect U.S. public opinion and hence the ability of the U.S. to collaborate with Colombia.

Dictators such as Peron and Rojas appear to be much more interested in achieving their own designs at home than in placing themselves in the good graces of foreign opinion. It seems to me, therefore, that unless we can find a way to show Rojas that he is hurting himself in Colombia by his policy of repression, we are not likely to be successful in inducing him to change his ways. Perhaps what has just happened to Peron will give him more food for thought than anything we could feed him at this time.[5]

Sincerely,

Henry F. Holland[6]

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programs aspect, but, I am afraid, the deterioration of American public opinion regarding his regime did not make much of a dent." (*Ibid.*) Holland passed Bonsal's letter to Dearborn who returned it with a note to Holland dated September 14 which reads in part: "It is interesting how closely the *El Tiempo* situation parallels that of Argentina's *La Prensa* with respect to public reaction and reactions by the Presidents." (*Ibid.*)

[3] The government of President Juan Domingo Perón of Argentina closed the Buenos Aires daily newspaper, *La Prensa*, in April 1951.

[4] Alberto Gainza Paz, publisher and editor of *La Prensa*.

[5] Perón was overthrown by a military coup on September 19.

[6] Printed from a copy which bears this typed signature.

440. Letter From the Ambassador in Colombia (Bonsal) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Bogotá, October 4, 1955.

DEAR HENRY: Al Waterston[2] of the World Bank Mission has been keeping in fairly close touch with me. We had a bit of friction at the start because I was unable to conceal my reaction to the World Bank's conduct with regard to the Export-Import Bank on the Paz de Rio matter. However, that is all now in the past and our relations are good.

For your own private information, and not for transmittal to the World Bank or to the Export-Import Bank for the present, I am appalled at what I learned from Waterston as to the views of the Paz de Rio operations which are being developed by the World Bank Mission. These views are in sharp contrast to the optimistic statements attributed to the Mission in the local press.[3]

Briefly, the World Bank finds the operation to be completely bankrupt and to be lacking in funds needed even for current cash outlays. There is no working capital. The Bank is going to recommend to the Government that it must make rather heavy advances of funds from the general budget just to keep the organization going. There must also be a thoroughgoing management reorganization. Everything is at sixes and sevens in operations and management. The Government must, in fact, divest itself of control and try as rapidly as possible to transfer the operation to private industry.

Nevertheless, the World Bank people believe that the steel industry prospects here are reasonably good and they agree that expansion along the lines contemplated by the Export-Import Bank negotiations is required. They are not, so far as I can judge, hostile to the operation. However, their view of its present status, particularly from the financial point of view, is a very gloomy one and I gather the impression that they have discovered facts and figures which the Export-Import Bank either did not know of or did not take into account.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Colombia. Secret.

[2] Albert Waterston was head of the IBRD mission to Colombia.

[3] An account of Waterston's views is contained in a memorandum of conversation dated October 3 by Henry S. Hammond, First Secretary and Consul of the Embassy. It was forwarded to Holland under cover of this letter. According to the memorandum, Waterston stated, in reference to a prospective Export-Import Bank loan for the Paz de Rio plant, that while he thought the loan was a good idea, "unless the basic deficiencies in the financial structure are corrected and the Government participation in the firm removed no other expedients will be successful." (Department of State, Holland Files: Lot 57 D 295, Colombia)

We will be reporting more in detail on this situation. My good friend Ignacio Umaña[4] tells me that he intends to proceed with great deliberation before reaching decisions as to the expansion or financing thereof. Waterston tells me that the Government, including the President, has generally accepted the preliminary views of the World Bank Mission regarding the bailing out with Government funds of the Paz de Rio enterprise and its gradual transfer to private industry.

I would appreciate it if you would make no use of the above outside ARA until we are in a position to report in more detail on the whole situation. I gather that Waterston has not yet reported to his home office.

Sincerely yours,

Phil

P.S. Enclosed is a copy of a memorandum prepared by Henry Hammond on our talk with Waterston. Incidentally, Henry, who was sent here as Labor Attaché, is doing a very good job of pinch-hitting as Economic Counselor.

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[4] Umaña, a former governor of the state of La Palma, was President of the Paz de Rio project.

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441. Memorandum of a Conversation, Department of State, Washington, November 10, 1955[1]

SUBJECT

4. Persecution of Protestants

PARTICIPANTS

Dr. Francisco Urrutia Holguin, Ambassador of Colombia[2]
Henry F. Holland, Assistant Secretary
OSA: Albert H. Gerberich

Mr. Holland said he had one problem that has given him a lot of headaches. The Ambassador said he knew what it was: the

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[1] Source: Department of State, Central Files, 821.413/11–1055. Confidential. Drafted by Gerberich.

[2] Ambassador Zuleta resigned in October 1955. Urrutia, Colombian Representative at the United Nations, presented his credentials as Ambassador on November 14. He remained the representative at the United Nations until 1957.

Protestant problem. Mr. Holland asked him if he had heard of the latest incident, the beating of an American missionary in the Llanos.[3] The Ambassador said Foreign Minister Sourdis had given him the details. He said he has been studying that problem, and has a suggestion to make in solving it. He was recently in Spain and talked to Artajo[4] and Ruiz Jiménez (Spanish Ambassador to the Holy See), who told him that when they were perplexed by the "bestialidades" of Archbishop Segura they appealed directly to the Holy See, and with good effect. Urrutia has a very good friend at the Vatican, Father Antonio Samoré, former Papal Nuncio to Colombia, who now has a high position in the Secretariat of State of the Vatican. He believes he can intervene directly with him when the Colombian hierarchy does not act promptly. He has noted that it is not the priests of the large cities, but those of the rural districts, that are the chief offenders. The "poor" police wouldn't act in such a high-handed fashion in those areas if the local priests didn't egg them on.

Mr. Holland said that in the present case it was not a priest who was the offender, but an inspector of police. The Ambassador said that was correct, and he has been placed under arrest. Mr. Holland said the latest he heard was that he has been released and is making new threats. He thought the man ought to be punished for this. The Ambassador said he was sorry to hear that he had been released, but under Colombian law it is very easy to get bail, and there is not much that can be done about it; the laws would have to be changed. Mr. Holland said he wanted the Ambassador to know that his position wasn't a pleasant one. A few months ago the Catholics were ready to burn him in effigy because he was not taking strenuous steps to dissuade Peron from dealing iron-handedly with the Church. In the case of Colombia, the Protestants are indignant and making things hot for him, and they have excellent connections in the Capitol and in the press. The question is one that has to be faced in a spirit of tolerance and justice.

(It is doubtful that Samoré can do much for the solution of the religious problem in Colombia. Confidential sources informed us at the time he left Bogotá that he had become persona non grata to Cardinal Luque because he intervened in this very matter, and his recall was requested on that account.)

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[3] In a memorandum dated October 31 to Blankinship and Dearborn, Gerberich reported that he had been informed by the National Association of Evangelicals that an American Protestant missionary had been severely beaten in Colombia on October 17. The missionary, Julius Alan DeGruyter, had stated that Colombian policemen were among those who assaulted him. (Department of State, Central Files, 821.413/10–3155)

[4] Alberto Martín Artajo, Spanish Minister of Foreign Affairs.

442. Editorial Note

Assistant Secretary Holland, accompanied by officials from various United States Government agencies, visited six South American countries, November 17–December 3. The delegation visited Colombia, Ecuador, Peru, Bolivia, Chile, and Argentina to discuss inter-American problems with government officials and with Embassy personnel. Upon his departure on November 17, Holland stated: "I shall be interested in seeing, myself, how the economic policies enunciated at the Meeting of Ministers of Finance and Economy at Rio de Janeiro a year ago are going forward." For text of Holland's departure statement, see Department of State *Bulletin,* November 28, 1955, page 897. An account of the trip and related memoranda of conversation were transmitted in despatch 355, November 25. (Department of State, Central Files, 033.1120/11–2555) Additional documentation is *ibid.,* 110.15–HO.

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443. Letter From the Secretary of Defense (Wilson) to the Secretary of State[1]

Washington, November 23, 1955.

DEAR MR. SECRETARY: In my two letters of January 28, 1955[2] to you regarding the financial responsibility for logistic support provided by the Navy to Colombia and Thailand naval vessels in connection with their participation in the United Nations action in Korea, it was pointed out that no reimbursements have been received from either country for support provided and that continuing support was being provided at a cost to the Navy of about $20,000 per month for each country. It was requested that the Department of State look into the matter of the ability of the recipient countries to pay, and it was suggested that an effective date be established after which the Colombian Government would commence paying currently for support requested.

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[1] Source: Department of State, Central Files, 721.5621/11–2355. Confidential. Copies of this letter were sent to the Secretary of the Treasury and to the Director of the Bureau of the Budget.

[2] See footnote 2, Document 421.

Deputy Under Secretary of State Murphy's reply of February 14, 1955[3] states that, in view of some questions as to the authority of the President, it is impracticable to initiate negotiations in such cases as Colombia and Thailand where it is known from their economic situation or previous discussions with the governments that the prospects of full payment are poor.

Some of the countries have currently been paying amounts owed without need for action by the Department of State, and in some other cases action has been taken by the Department of State. However, because delay in seeking proper reimbursement from nations who were provided logistic support by the United States in connection with the United Nations action in Korea diminishes the likelihood of securing repayment, and because of the important precedent being created in connection with this aspect of United Nations police actions, additional action appears desirable.

The policy under which the support was provided was that the recipient country would recognize an obligation for payment to be settled preferably by prompt payment in dollars or if that was not practicable the manner and time of settlement would become the subject of later negotiation between official governmental representatives. It is understood that the only exception approved by the President to this policy was the case of India.

It would seem that regardless of the question of the clarity of the authority of the President, it would be both proper and business-like to proceed with analysis of the ability of the various countries to pay on immediate or deferred terms the amounts they owe. Additionally, it would appear that discussions could properly be undertaken with all countries with potential ability to pay in order to determine the manner in which they are willing to discharge their obligation. There would not seem to be a need for the United States initially to make any commitments in such discussions to accept less than full payment under deferred terms even though it might be felt in some cases that some scale-down in amount was justifiable. Such discussions could be on a basis that any arrangements other than payment of the full amount due, either in a lump sum or over a reasonable period of years, would have to be reported to the President for consideration and decision—which would be made later in the light of the conclusions in process as to what authority exists or will be sought by legislative action.

It seems apparent that some of the countries listed in the attached summary[4] of the value of logistic support furnished could afford to settle their obligations without undue financial disturbance.

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[3] Document 421.

[4] Not printed.

My thought, therefore, is that action should be initiated to develop appropriate financial information, and to open discussions at least with the countries who can obviously afford to make payment, and ultimately with all in order to avoid the undesirable further lapse of time.

The Department of Defense stands ready to provide assistance in achieving these objectives.[5]

Sincerely,

C.E. Wilson

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[5] In a letter dated December 22, Deputy Under Secretary Robert Murphy, writing for the Secretary of State, responded to this letter from Secretary Wilson. With respect to Colombia, Murphy wrote: "It has been made clear by representatives of the Colombian Government that it does not consider that it has a firm obligation to the United States, that it will regard a demand for full payment as an unfriendly act on our part, and that it does not consider itself able to pay the amount claimed."

Murphy concluded that, without appropriate congressional legislation, "we can actively seek settlements only in cases where, considering all the pertinent factors, the United States is prepared to press for and can reasonably expect to obtain agreement on full payment." (Department of State, Central Files, 721.5621/11–2355)

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444. Memorandum by Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, December 10, 1955.

SUBJECT

Notes on Problems in Countries Visited on Recent South American trip

The following is a brief summary of some of the problems encountered in the course of our trip to Colombia, Ecuador, Peru, Bolivia, Chile and Argentina.

Colombia

1. *Military Equipment*

The Colombians made two presentations on their desire for more military equipment. The first was a frank request for more equipment. The second was an accusation that we were not living up to our obligations under the military agreement. As to the first request, we feel that the Ambassador should tell the Colombians frankly that in the present budget there is no money for new military assistance not contemplated by our existing agreement. As to the assertion regarding non-compliance with the military agreement we feel that the Ambassador should ask the Colombians to participate in a joint study of the obligations of the parties under the agreement. This study should be made to determine whether either side is delinquent in its obligations.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Colombia. Confidential. Drafted by Holland. Copies were forwarded to the following members of the delegation who accompanied Holland to South America: Samuel Waugh; Major General Robert W. Douglass, Chairman of the U.S. Delegation to the Inter-American Defense Board; Corbett; and Harley.

2. *ICA Programs*

It was found that, contrary to the policy guidance of ARA, the ICA mission had established an investment counseling program, thus duplicating the normal functions of the Embassy.

In actual practice duplication was being avoided by having the ICA officer involved assigned to the economic section of the Embassy. However, it was decided to eliminate reference to an investment counseling program from the program structure of the ICA mission.

3. *Export-Import Bank Activities*

The Bank is prepared to go forward with the Paz de Rio loan, but is awaiting an IBRD report.

The Minister of Finance requested a line of credit to be managed by the Central Bank and to be used primarily to import agricultural equipment. He requested $100 million; Mr. Waugh indicated that he might consider a line, but of a considerably smaller amount. The Export-Import Bank agreed to give a reply on this application.

4. I talked to President Rojas about the bad publicity that he is getting in the United States on account of his suppression of the newspaper *El Tiempo.* While we were there he announced the appointment of a panel of jurists to draft a decree guaranteeing freedom of the press. It remains to be seen whether the decree will be effective. The chairman of the panel is Eduardo Zuleta Angel.

445. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Lyon) to the Deputy Under Secretary of State (Murphy)[1]

Washington, December 22, 1955.

SUBJECT

Summary of Protestant school problem in Colombia

Political strife in Colombia has often had strong religious overtones. This was particularly true between 1949 and 1953 when it was frequently difficult to distinguish between political and religious-motivated warfare in which thousands of persons, including hundreds of Protestants, were killed. During this period 46 Protestant schools were dynamited or burned and one U.S. missionary murdered.

During [*Since?*] 1953 killings and beatings have lessened, but there has been a determined campaign to close Protestant schools. Nearly 200 of these have been closed. The strongest of such schools—the 80-year old Presbyterian schools, the Colegios Americanos in Bogota and Barranquilla, still remain, and are well regarded. The Presbyterians were called in by the Colombian Government about 1866 to advise it in educational matters.

On July 14, 1955, the Colombian Ministry of Education issued a resolution providing, amongst other things, that if non-Catholic schools admit Catholic students they must provide Catholic religious instruction for such students by Catholic professors approved by the local clergy. Catholic students until now have been free to attend supplementary classes in religious instruction outside of school hours and off school premises, and have also been able to take, as a part of the school course, religious education given by Protestant teachers which has met the requirements of the Ministry of Education for official certificates, etc. There has been absolutely no proselytizing in Protestant schools.

Faced with the Ministry's resolution, the Protestant schools decided that, rather than admit Catholic professors they would not admit Catholic students. This was immediately denounced by the Catholic hierarchy as a subtle form of propaganda and as an attempt to force Catholics to register as non-Catholics in order to gain admission to the schools. The Archbishop of Bogota issued a circular excommunicating Catholic parents who send their children to the Protestant schools.

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[1] Source: Department of State, Central Files, 821.413/12–2255. Confidential.

Ambassador Bonsal has informally expressed the hope to the Foreign Minister that a solution can be found which will restore the status quo ante July 14. He also said that it is difficult not to share the view of the Protestants that the resolution represents a further step in a campaign designed to eliminate, or at least greatly to curtail, Protestant activities which have enjoyed the protection of Colombian law for several generations. He has also spoken informally to the Papal Nuncio in the hope that he would exert a moderating influence. Ambassador Bonsal is not optimistic as to the outcome.

At the request of Assistant Secretary Holland the Colombian Ambassador was called to the Department on December 19 and Mr. Lyon reinforced Ambassador Bonsal's conversations in Bogota.[2] Ambassador Urrutia appeared sympathetic to our point of view. He said he would report his conversation to the Foreign Office, and expressed that hope that a way out of the dilemma might be found in view of the stir that the Ministry of Education's resolution has aroused.

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[2] Memorandum of conversation, December 19, by Gerberich. (*Ibid.*, 821.413/12–1955)

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446. Memorandum From Albert H. Gerberich of the Office of South American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Lyon)[1]

Washington, February 3, 1956.

SUBJECT

Comments on the Political Situation in Colombia

The popularity of Gen. Gustavo Rojas Pinilla, who exerts a virtual military dictatorship in Colombia in the name of the Conservative Party, seems to have continuously fallen off during the past year or so. It is possible that he has a strong following amongst the rank and file of the people in the country, but most of the political leaders are now hostile to him. The restrictions he has imposed on the press of the country have not only accentuated this hostility but have raised a considerable storm of protest abroad. At the present time there are no Liberal newspapers published in the capital and no Laureanista newspapers published in the entire country. The Laureanistas (followers of ex-President Laureano Gomez) are said to make up 90% of the membership of the Conservative Party.

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[1] Source: Department of State, Central Files, 821.413/2–356. Secret.

President Rojas still seems to be in firm control of the situation. He has said publicly that the army, the church and the people are all with him. There is no evidence of any break in the army support. He has been extremely careful to avoid any disagreement with the Church and its policies. The sectors of the populace who would like to overthrow him appear to lack both leadership and means to carry out any such objective. Nevertheless, rumors have been heard in Bogotá, Washington, and Caracas that his days are numbered, that there is well-advanced plotting against him, and that he will be deposed by joint action of the military and traditional political elements.

The civil strife in the country is centered mostly in the southern Andes (where the Departments of Tolima, Valle, Cauca and Huila meet) and in the western Llanos. Guerrilla strength is estimated at between 6000 and 7000 in all. Guerrilla activity has not as yet become a serious threat to the stability of the government.

The principal problems facing us are:

1. *Religious Strife.* The two most pressing phases of this problem are (a) the question of the opening of the Protestant schools; (b) the attack on the Reverend Julius Allan deGruyter last October 17. The Colombian Ambassador has promised to give us a definite statement regarding the former, but says he has received no word from Bogotá. The Colombian Government has not given us a satisfactory statement in reply to our request that those guilty of the attack on deGruyter be punished. A note to the Colombian Embassy expressing our dissatisfaction on this point is being prepared. The matter of the schools will become serious if they are refused approval on the basis of religious discrimination.

2. *Military Assistance.* The Colombians have submitted a formal request that their responsibilities under the Mutual Assistance Agreement be expanded and that they be given additional military supplies to enable them to carry out such responsibilities. The request was forwarded to the Pentagon, but no reply has yet been made to it.

3. *Reimbursement for Logistic Support in Korea.* Colombia theoretically owes between $14 and $15 million for logistic support to its forces in the Korean campaign, but maintains that it was promised that the bill would be subject to negotiation both as to amount and currency. At the present moment a careful survey is under way of all these reimbursement bills, which will probably result in specific recommendations to the President as to the action to be taken.

4. *Paz de Rio Steel Plant Credit.* The Eximbank is still waiting for word from the Colombians as to whether they wish to submit their application under the conditions laid down in its note to Ambassador Zuleta.

5. *Air Agreement.* Negotiations for a Bilateral Aviation Agreement began in Bogotá on February 1st.[2]

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[2] In a note to Foreign Minister Sourdis, dated January 17, Ambassador Bonsal stated in part that the United States was prepared to assign "one or more specialists to provide technical consultation and assistance in civil aviation to the Ministry of Public Works of Colombia" and to other agencies concerned with civil aviation. The bilateral agreement entered into force on March 27 upon receipt by the United States of a note from Sourdis which stated Colombia's acceptance of the terms of Bonsal's note. For text, see 7 UST (pt. 1) 715.

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447. Editorial Note

In February 1956, the Waterston mission to Colombia submitted its report, "A Program for Colombian Public Investment and External Borrowing," to the International Bank for Reconstruction and Development (IBRD). A copy of this report, No. Z–6, in two parts with three annexes, is in the archives of the IBRD. No copy of the Waterston report has been found in Department of State files. In a memorandum dated March 23, Albert H. Gerberich informed Assistant Secretary Holland of the conclusions of the IBRD mission regarding the Paz de Rio steel plant. According to Gerberich's memorandum, the mission recommended the following:

"The Government [of Colombia] should refrain from becoming involved in any further commitments with respect to Paz de Rio until (a) experienced management assistance has been employed and has demonstrated its capacity to master the problems of operating the present plant; (b) consulting engineers have prepared necessary studies and designs; (c) final determination has been made regarding the character of the expansion on the basis of the operating and marketing experience obtained in the interval." (Department of State, Holland Files: Lot 57 D 295, Colombia)

448. Memorandum of a Conversation, Department of State, Washington, March 30, 1956[1]

SUBJECT

Religious Problems in Colombia[2]

PARTICIPANTS

Colombian Ambassador Dr. Francisco Urrutia Holguin
Assistant Secretary Holland
OSA—Mr. Bernbaum
OSA—Mr. Gerberich

Mr. Holland handed the Ambassador an aide-mémoire[3] on the religious problem, and outlined the main points with him. He emphasized that we are concerned because things improved so greatly for a year or so after the Rojas Government took over in 1953 and now seem to have deteriorated again. He hoped the Ambassador would find the aide-mémoire helpful in his discussions of this question with the President and other officials of the Colombian Government. He urged that the utmost be done to find a solution to this question that will guarantee U.S. Protestants the enjoyment of their fundamental rights, and said he was pressing the Ambassador to do the utmost, not in a spirit of rancor, but in an earnest desire to eliminate what is possibly the most troublesome problem in Colombian-American relations.

The Ambassador said he understood Mr. Holland's viewpoint perfectly. He said he had to admit that in the outlying districts of the country the clergy practically rule the actions of the people, and the clergy are ignorant. Most of the country priests have no better education than a fifth-grade pupil in the United States. The average Colombian priest has had no more than three years' seminary training. They can get the peasants and police in their parishes to testify to almost anything they say, and they may have done this in the deGruyter case and other cases.

Nevertheless, he had a feeling that the situation had improved in the last month or two. He asked Mr. Gerberich if he had heard of any incidents in that time. Mr. Gerberich said he knew of but one, when an attempt was made to set fire to a Protestant Church at La Cumbre in Valle and the Catholic inhabitants of the village had seen it and themselves put out the flames. The Ambassador said that reminded him of an incident not far away, at La Tejada, where he has a ranch, and where many of the laboring people are Protestants. He said in this case some of the Catholic laborers actually blew up the small parish church because the priest refused burial in consecrated ground to a man who had not lived in wedlock with his wife.

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[1] Source: Department of State, Central Files, 821.413/3–3056. Confidential. Drafted by Gerberich.

[2] In a memorandum dated March 27 William Belton informed Holland that attacks on Protestants in Colombia continued despite U.S. Government protests and that President Rojas and the Minister of Government, Lucio Pabon Nuñez, had "fanned the flames of religious hatred by public statements linking Protestants with Communists and subversives." Belton recommended that Holland call in the Colombian Ambassador to discuss the situation. (*Ibid.*, 821.413/3–2756)

[3] Not found in Department of State files.

He said he would do what he could to improve the situation and intended to make a special effort in the deGruyter case, in which he hopes to interview the witnesses himself. He said the Protestants would help their own lot considerably if they would agree not to operate in "mission territory". In any case, he thought the situation would certainly improve within a few more months.

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449. Letter From the Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, March 31, 1956.

DEAR MR. GRAY: The Department of State has received a note from the Colombian Government, a copy of which is enclosed, requesting the loan of two destroyers under the provisions of the bilateral Military Assistance Agreement with Colombia.[2] It will be noted that the Colombian Government offers to pay the cost of rehabilitation for the two destroyers on the understanding that this would be refunded if the United States, in its security interests, repossesses the vessels during the period of the loan agreement. Although the Colombian Government has offered to pay the cost of rehabilitation, the Colombian Ambassador has indicated informally that his Government considers Colombia is not receiving equitable treatment from the United States under the grant military program. In this connection, he referred to the legislation now pending in the

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[1] Source: Department of State, Central Files, 721.5621/3–756. Confidential.

[2] The note is not printed. In a memorandum of conversation dated March 7, Gerberich reported that Ambassador Urrutia handed to Holland a note from his government requesting that the vessels be made available on loan from the U.S. mothball fleet as this would be less expensive than repairing the destroyers already owned by Colombia. (*Ibid.*, 721.5–MSP/3–756)

Congress to loan two submarines to Brazil and to pay the cost of rehabilitation from MDAP funds. I should like to suggest, therefore, if the Department of Defense decides that there is a military justification for providing two destroyers to Colombia, that consideration be given to rehabilitating one or both vessels with MDAP funds.

From the political point of view it would appear desirable to respond favorably to the Colombian request. This request should, however, be considered in the context of a program for the loan of naval vessels to Latin American countries as suggested in my letter to you of October 7, 1955.[3] I should appreciate being advised of your Department's decision on this request and, if favorable, whether it is planned to introduce enabling legislation during the present session of Congress.

You will recall that the interests of the Colombian Government in acquiring destroyers has been the subject of previous representations by the Colombian Government and that a request for two destroyers is included in the Colombian note of December 30, 1955, which was referred to you by Mr. Hill's letter of January 20, 1956.[4]

Sincerely yours,

Robert Murphy[5]

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[3] Not found in Department of State files.

[4] Robert C. Hill, Assistant to the Under Secretary of State for Mutual Security Affairs. This letter was not found in Department of State files.

[5] Printed from a copy which bears this typed signature.

450. National Intelligence Estimate[1]

NIE 88–56 *Washington, April 10, 1956.*

PROBABLE DEVELOPMENTS IN COLOMBIA[2]

The Problem

To estimate the current situation in Colombia and probable developments through mid-1958, with particular reference to the character and stability of the Rojas Pinilla regime.

Conclusions

1. The present Colombian government is an authoritarian regime under military control. President Gustavo Rojas Pinilla has failed in his efforts to organize a broad political base and is maintained in power only by the backing of the armed forces. (*Paras. 22–24*)

2. The traditional Conservative and Liberal parties constitute the principal opposition. They are hampered by internal weaknesses, and are harassed and restricted in their activities by the government. Their principal leaders show no taste for militant political action. Nevertheless, the parties are able to apply sustained pressure upon the Rojas Pinilla administration. (*Paras. 25–30*)

3. About 6,000 guerrillas are active in parts of the nation's mountainous areas and main river valleys (see map).[3] Present guerrilla capabilities are limited to harassment of government forces and to brigandage. Guerrilla operations have no over-all centralized direction, but the Communists have extended their influence in the guerrilla movement and probably now exercise effective control over

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[1] Source: Department of State, INR–NIE Files. Secret. National Intelligence Estimates (NIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of NIEs.

[2] According to a note on the cover sheet, "The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff. Concurred in by the Intelligence Advisory Committee on 10 April 1956." W. Park Armstrong summarized NIE 88–56 in a memorandum to Secretary Dulles dated April 27. (*Ibid.*, Central Files, 721.00/4–2756)

[3] Not printed.

the leaders of possibly as many as half of the active guerrillas.[4] (*Paras. 31–36*)

4. The Colombian Communist Party (PCC) was declared illegal in March 1956. There are probably not more than 5,000 Communists; their political and labor influence has been declining over the past decade. The guerrilla movement is subject to Communist exploitation, but it is not likely that the PCC could, by this means, become a serious contender for political power in Colombia during the period of this estimate. It might, however, become able to exact political concessions as the price of a cessation of guerrilla activities, particularly if and when the Rojas Pinilla regime were overthrown by other political forces. (*Paras. 37–38, 61*)

5. The Colombian armed forces firmly support Rojas Pinilla. They are capable of either maintaining the President in power or deposing him. Better organized, trained, and equipped than at any other time in their history, they are capable of defending the country against its adjacent neighbors, but their limited efforts have thus far failed to eliminate guerrilla activities. (*Paras. 39–42*)

6. Colombia's current economic position is fairly healthy. Coffee exports remain at high levels, and prices are relatively good. The government is successfully maintaining a vigorous economic expansion program, abetted by sizable inflows of foreign capital. Inflationary forces have been kept under control. (*Paras. 43–49*)

7. Colombia has been among the most cooperative of the Latin American nations in support of United States political and defense objectives, both Hemispheric and worldwide. However, like other Latin American nations, it often opposes the US on economic and colonial issues in the UN and the OAS. The anti-Protestant policies of the government and the Catholic Church, which affect US missionaries, remain a thorny issue in US-Colombian relations. (*Paras. 50–52*)

8. We believe that Rojas Pinilla will remain in office at least through 1956. The military will almost certainly continue to support the regime. It is unlikely that the opposition parties will overcome present weaknesses or adopt more militant tactics, or that the guerrillas will be able to increase their capabilities significantly during this period. Furthermore, based on the outlook for coffee

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[4] In a memorandum to Bernbaum and King of ARA, dated April 11, Gerberich commented on this paragraph regarding Communist control of guerrilla forces in Colombia. He stated, "I do not believe our Embassy's reporting is in agreement with the inference made in that [final] sentence. I have written the Embassy to request a more precise statement on the subject, and until I receive it I am still going on the assumption that Communist control over so great a number of men is far from proved, and probably incorrect." (Department of State, Central Files, 721.00/4–1156) No record of a response from the Embassy in Colombia has been found in Department of State files.

prices, 1956 will probably be a relatively good year economically for Colombia. (*Paras. 55, 58*)

9. Beyond 1956 the President's prospects are less certain. The irreconcilable issues between the traditional parties on the one hand, and the government on the other, will probably increase political tension, in which case the chances for violence and public disorder will be greatly magnified. In this climate, the armed forces might oust Rojas Pinilla in an attempt to restore stability and preserve their continued control of the government. (*Paras. 56, 60.*)

10. The armed forces will remain united in their support of Rojas Pinilla only so long as the officers generally remain convinced that his leadership is effective and that he has not become a political liability. A great increase in political tensions accompanied by a serious deterioration in the economic situation would probably lead the armed forces to depose Rojas Pinilla. In this event, the nature and orientation of any successor government would almost certainly be determined by the armed forces. We are unable to estimate whether a successor government would be able to re-establish orderly political processes. (*Para. 59*)

11. Neither the Rojas Pinilla regime nor any probable successor is likely to alter Colombia's policy of close cooperation with the United States in resisting Communism and maintaining peace in the Hemisphere. Colombia will almost certainly continue to support the West against the Soviet Bloc in the UN. However, Colombia's current small volume of trade with the Soviet Bloc probably will expand somewhat, and diplomatic relations may be revived. (*Para. 62*)

Discussion

I. Introduction

12. The strategic importance of Colombia to the United States derives from its proximity to the Panama Canal. With over 12 million inhabitants, it ranks fourth in population (behind Brazil, Mexico, and Argentina) among the Latin American republics. About two-thirds of the population is of mixed blood (mestizo and mulatto). A large proportion is poverty stricken and illiterate. Political and economic power is in the hands of a small white elite. Agricultural pursuits occupy three-fifths of the employed. The axis of the economy is coffee production. Although Colombia has abundant land, mineral, and power resources, its economic development has been seriously handicapped by some of the most rugged topography in the world. Among Latin American nations, Colombia is the most intensely Catholic. Until 1948, it was also noted for the relative maturity and stability of its political institutions.

13. Until recently, control of Colombia's institutional life by the landholding, merchant, military, and ecclesiastical elite was virtually unquestioned. Since early in the twentieth century constitutional successions had become the rule, with political office alternating between the traditional Conservative and Liberal parties, the former supporting strong central government and the temporal influence of the Church, the latter opposing both. Although local feuds often resulted from the deep-seated bitterness between the traditional parties, national politics were for the most part orderly and stable.

14. In terms of general Latin American politics, two institutions—the Church and the army—occupied peculiar positions in Colombia. The Church, largely through its association with the Conservative party, was politically more active and influential than in other countries of the area. On the other hand, the Colombian army, unlike those of most other Latin American republics, had generally refrained from active intervention in politics and had acquired a reputation as a guardian of constitutional processes.

15. From about the time of World War I, economic and social change began to modify the general political environment. Colombia took the first major steps towards economic development and diversification by encouraging consumer industries and by establishing a foreign-financed petroleum industry. The pace of economic growth and change was greatly accelerated from the thirties onward. Increasing industrialization brought about migration from rural areas to Colombia's cities, and there began to emerge a more class-conscious urban labor force. The changing social pattern intensified existing party cleavages and began to undermine the old political order.

16. Liberal politicians led by Alfonso Lopez[5] were the first to bid for the support of these new urban elements. The Liberal party, which promoted social reform along with industrialization and encouraged the organization of labor, was able to maintain itself in power as the majority party from 1930 to 1946. However, when labor elements led by Jorge Eliecer Gaitan demanded a larger voice in party councils, the old-line Liberal politicians refused. The result was a split in the Liberal party which enabled the minority Conservative party to win the election of 1946. Two years later Gaitan was assassinated and leftist elements within the Liberal party became splintered and ineffective.

17. The Conservatives, once returned to power, showed themselves even less capable than the Liberals of adapting to a changing social and political environment. Serious rifts in the Conservative party developed around the rivalry between the moderate President Ospina Perez (1946–1950) and Laureano Gomez, who held extremist

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[5] Alfonso Lopez Pumarejo, President of Colombia, 1934–1938.

authoritarian convictions. The latter won the Presidency in 1950 without united Conservative support in a controlled election in which the Liberals refused to participate.

18. The election of a minority Conservative government in 1946 ended the period of relative order and stability in Colombian political life and introduced a period of increasing violence and instability. The tension between Liberals and Conservatives resulted in an increasing number of political murders in the countryside. Against this background, the murder of Gaitan, in April 1948, touched off the famous *"Bogotazo,"* the spontaneous reaction of the leftist Liberal mob of Bogota against the Conservative regime, which was rendered the more spectacular because the ninth Inter-American Conference was then in session in Bogota.

19. Severe restrictions on constitutional liberties, pursuant to the state of siege declared in November 1949, provoked further violence in the countryside. Guerrilla fighting, supported by political diehards, adventurers, outlaws, and some Communists, spread throughout most of the settled rural areas and into the sparsely populated llanos (plains) east of the Andes. President Gomez countered by further curbing political liberties and by converting the armed forces into instruments for the preservation of Conservative rule. By 1953, the conflict between the opposition and the government had reached a deadlock, with neither side capable of defeating the other and with tension so extreme as to preclude truce negotiations.

20. In this situation the army, under the command of General Rojas Pinilla, ousted President Gomez and took over the government in June 1953. This action was generally and enthusiastically welcomed by the populace which had lost confidence in its civilian political leadership. Rojas Pinilla, capitalizing on this reservoir of good will, virtually halted guerrilla activity through offers of amnesty and rehabilitation to guerrillas willing to surrender their arms. In addition, the new regime formulated a broad new program calling for economic aid to areas affected by civil strife, re-establishment of civil liberties, constitutional reform, improvement of living standards, and elections as soon as possible.

21. Despite this auspicious beginning, the new regime failed to alter the process of political deterioration. Rojas Pinilla showed little inclination to return power to the civilian parties, and instead displayed intentions to perpetuate himself in office. The state of siege was maintained, elections were postponed, and the civilian politicians were harassed by unprecedented radio and press controls, while administrative positions progressively passed into military hands. The promised economic and social benefits for large groups of the population were not forthcoming, and the pacification of the country was only temporary. A determined effort by the regime to

organize its own political following among dissident members of the traditional parties and labor elements proved futile. The chief consequence of Rojas Pinilla's increasingly authoritarian and politically ambitious policies has been a widening of the gap between the military government and the traditional civilian parties.

II. Present Situation

Political

22. The present Colombian government is an authoritarian regime under military control. Under Rojas Pinilla, army officers play a major role in the determination of national policy. The general staff, rather than the Cabinet, often decides affairs of state. Increasingly, the military are taking over both national and local administrative posts. Eleven of the sixteen governorships and many municipal mayoralties are already held by officers of the armed forces.

23. Rojas Pinilla's tenure of power is dependent on the backing of the armed forces, including the police. Most of the officers have Conservative backgrounds, but they are loyal to Rojas Pinilla rather than the Conservative party. Although minor dissension in the armed forces has resulted from the regime's methods of handling political, subversive, and corruption problems, disaffection has thus far been insufficient to threaten Rojas Pinilla's control. Rather, military support has been for the most part firm, conditioned by realization of the ineffectiveness of civilian political leadership, by fear of possible chaos should Rojas Pinilla fall, and by appreciation of the material benefits and special privileges granted the armed forces by the regime. Under Rojas Pinilla, the armed forces have acquired virtually the status of a privileged caste.

24. Civilian support for the Rojas Pinilla regime is generally confined to disparate groups of political opportunists and labor malcontents. The President retains backing in the Conservative party only from one minority extremist faction and a scattering of personal followers. He also has some support from a dissident Liberal minority, chiefly of leftist orientation, and from a handful of socialists and labor leaders, including some Communists. Rojas Pinilla has persistently tried to use most of these groups to build up a popular following in the manner of former President Peron of Argentina. This endeavor has thus far been checked by the strongly adverse reactions of the traditional parties, labor, and the Church. Since Rojas Pinilla remains reluctant to force the issue in the face of this opposition, he has refrained from carrying out various schemes for the formal organization of a government-controlled third party or labor confederation.

25. At the same time, the traditional political parties remain incapable of exercising any effective political initiative. The Conservatives are split into four rival factions incapable of united action. The Liberals lack forceful leadership; the party is rendered ineffective by the tendency of its members toward either apathy or dissidence. Neither party has anything to propose, except a generalized demand for a return to representative constitutional government. Their activities are effectively controlled by the regime. Even the unrepresentative Constituent Assembly has not been allowed to meet since it elected Rojas Pinilla president for a four-year term in 1954. Consequently there is no legislature and no prospect of any elections. Party assemblies are prohibited, except for a few specially controlled occasions; political leaders are prevented from touring the countryside to revive party loyalties, as has been customary; political propaganda in the press has been suppressed. The government responded with violence to a recent spontaneous popular demonstration at the Bogota bull ring in recognition of Alberto Lleras Camargo,[6] former president of Colombia and present chief of the Liberal party.

26. Neither of the traditional parties has advocated the overthrow of the regime by force. It appears that some prominent Liberals are planning to provide support to selected guerrilla groups, but most political leaders, including the top leadership of both parties, are inhibited by their memories of the destruction of life and property in the 1949–1953 civil disturbances, their awareness of the overwhelming military support enjoyed by the government, and their fears of bringing into play uncontrollable popular forces. Nevertheless, the traditional parties have been able to maintain political pressure upon Rojas Pinilla. Through propaganda and proposals for the restoration of political activity they have kept the government on the defensive. The acute sensitivity of the Rojas Pinilla government to criticism and the severity of its restrictive and punitive countermeasures are a measure of the effectiveness of this opposition political pressure.

27. The resultant political situation is a deadlock. The government is unable to broaden the base of its political support and unwilling to restore constitutional processes. The traditional parties, on the other hand, remain incapable of any effective political action except the denial of political support to the government.

28. Although the Catholic Church generally supports the present regime, it has been strongly critical of certain major government policies. The hierarchy has expressed disapproval of the government's secondary school reforms, which it regarded as infringing on

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[6] Lleras Camargo, President of Colombia, 1945–1946.

Church prerogatives in education, and it has denounced restrictions upon the freedom of expression, which have affected Catholic media of information. The most determined clerical opposition to the regime has come in response to Rojas' efforts to build up a popular following in opposition to the traditional parties and to the Church-influenced labor unions.

29. The Colombian labor movement, always closely allied with the political parties, has never developed independent leadership. Liberal-oriented unions, formerly in the majority, declined and disintegrated. The Conservative-oriented and Church-influenced Union of Colombian Workers (UTC), which controls about one-half of the nation's 500,000 organized workers, is the nation's only important labor confederation. Though harassed by the government's restrictions and controls, the UTC has nevertheless effectively opposed the organization of administration-sponsored unions. In the face of government discouragement of independent labor activity and the breakdown of the traditional political system, the majority of organized workers have become increasingly apathetic and are union members in name only.

30. Colombia's propertied and commercial interests, which cut across party lines, are for the most part organized into functional associations which act as pressure groups and have a considerable voice in the determination of national policies. These special-interest organizations, most important of which are the National Federation of Coffee Growers, the National Association of Industrialists, and the National Federation of Merchants, are generally consulted by the government on legislation and policies affecting their interests. Although the influence of these groups is limited to economic issues, the sum total of their action tends to circumscribe the freedom of the government in matters of broad policy planning.

Subversive

31. Political unrest under the Rojas Pinilla regime has been accompanied by a resumption of guerrilla warfare. Guerrilla groups comprise a wide variety of elements with disparate and even conflicting aspirations: dissident members of the traditional parties intent upon undermining the Rojas Pinilla regime, Liberals and Conservatives waging the traditional partisan battle against each other, veterans and victims of the 1949–1953 civil war, bandits, and some Communist party members and sympathizers. There is no overall centralized direction of the guerrilla movement.

32. The real extent and seriousness of the guerrilla movement are difficult to assess. So far, only some 4,500 troops have been committed to guerrilla-infested areas. On the other hand, army officers have tended to exaggerate both the number of guerrillas and

army successes in combatting them. Government officials, including the President, have also exaggerated guerrilla activities both to justify maintenance of the state of siege and to "prove" the regime's progress towards restoring order. In addition, press censorship, official radio controls, and the very nature of the fighting make a precise assessment of the civil disorders impossible.

33. There are probably about 6,000 active guerrillas. The principal concentrations are in central and western Tolima and the adjacent mountainous regions of southern Caldas, Valle del Cauca, Cauca, and Huila, where almost 4,000 guerrillas are now operating (see map). Various small bands also operate in the Cauca and Magdalena River valleys and on the western edge of the llanos. The Colombian army claims that order has been restored in eastern Tolima and southern Cundinamarca, where guerrilla warfare assumed major proportions early in 1955, but sporadic outbreaks of violence still occur in those areas. A band of guerrillas in southern Boyaca appears to have been reduced.

34. In addition to the 6,000 active guerrillas, approximately 6,000 "ex-guerrillas" live quietly in southern Tolima and control their own affairs. The army is not attempting to reduce this area. Another largely inactive group is located along the Magdalena River valley.

35. The guerrillas are armed only with rifles, carbines, submachine guns, home-made hand grenades, and machetes. These weapons have been obtained in part from government sources, by theft or capture, and in part by smuggling from neighboring countries. The guerrillas normally operate in small bands, but on occasion groups of a hundred or more have clashed with army units. The guerrilla areas are isolated and rugged. The guerrillas control no lines of communication and are apparently incapable of dislodging army units from their present positions. Present guerrilla capabilities are apparently limited to the harassment of government forces and the pillaging of local farmers.

36. High government officials, including the President, contend that a large percentage of the guerrillas are Communist and are directed and assisted by the international Communist apparatus. While there is no reason to believe that any considerable number of the guerrillas are ideologically Communistic, there is evidence that the Colombian Communist Party (PCC) has been active in supplying certain guerrilla bands with arms, food, clothing, medicines, and money, as well as with political propaganda. By these means, it has extended its influence in the guerrilla movement and probably now exercises effective control over the leaders of possibly as many as half of the active guerrillas. Present Communist strategy, in connection with the guerrilla movement, is to develop local civilian "self-

defense" committees. These committees are to take control of areas with good defensive possibilities, set up a relatively independent economy, carry out agrarian reforms, and eventually establish a "democratic government of national liberation" in such areas.

37. There is also evidence that certain Liberals are concerned regarding the trend toward Communist control of the guerrilla movement, which they attribute solely to Communist activity in supplying the material wants of the guerrillas, and are seeking to counter Communist influence by developing Liberal sources of supply for the guerrillas. Liberal influence among the guerrillas is potentially greater than that of the Communists, but the present Liberal party leadership is not disposed to sanction strong Liberal support of the guerrilla movement, for fear of expanding and intensifying civil disorder and violence.

38. Apart from potential leadership of the guerrilla movement, Communist capabilities in Colombia are extremely limited. In 1945 Communist candidates polled 27,000 votes (three percent of the total), but since then Communist political prestige has sharply declined. The PCC probably now has no more than 5,000 members and almost no political influence. In 1954 the government outlawed the "political activities of international Communism"; in March 1956 it declared the PCC itself illegal. Similarly, Communist influence in organized labor has declined. The Communist labor confederation (CTCI) does not now constitute an effective base for political action. Important influence in certain unions in the Barranquilla area is exercised by dissident Communists, most of whom currently support the Rojas Pinilla regime. We have no evidence of Communist influence in the armed forces.

Military

39. The Colombian armed forces are better organized, trained, and equipped than at any other time in the history of the country. The government continues to improve the effectiveness and prestige of the armed forces. To this end it has maintained US Army, Navy, and Air Force training missions, and has concluded a bilateral military assistance agreement with the US, thus making Colombia eligible for grant aid under the Mutual Security Act of 1951. Colombia has committed one infantry and one AA battalion, and four naval vessels for Hemisphere defense.

40. The army, numbering some 32,000 men, dominates the armed forces. Control of the navy, the air force, and the 18,000-man police force is traditionally vested in the top army leaders. The navy has 4,200 men and 32 vessels, of which the largest are two recently modernized escort destroyers. Delivery of two new destroyers from Sweden is expected in 1957. The air force has 3,200 men and 220

aircraft, the most effective of which are 37 piston fighters and 9 piston light bombers.

41. Most of the armed forces officers come from Conservative party families. Purges, retirements, and controls over appointments to the Military Academy have virtually eliminated officers with Liberal sympathies. Despite their Conservative background, armed forces officers are loyal to brother-officer Rojas Pinilla, rather than to the Conservative party. The President, in turn, looks out for the officers' interests. Together, this "Government of the Armed Forces" rules Colombia.

42. The armed forces are capable of defending Colombia against invasion by the forces of any neighboring country and of maintaining the regime in power against any internal opposition. However, they have done little more than contain the guerrilla movement. At their present strength, it may be beyond their capabilities to eliminate guerrilla activities in the relatively inaccessible areas in which the guerrillas now operate. The small scale of the antiguerrilla effort (only 4,500 troops) appears to reflect a policy decision that it is both unnecessary and inexpedient to send major forces into the mountains in pursuit of them. The guerrillas cannot seriously threaten the regime without coming out into areas where the armed forces could operate against them with greater strength and effectiveness. Some consideration is being given to a plan to recruit a special force of up to 6,000 to hunt down the guerrillas. However, the Tolima governor's recent proposal for a political rather than a military solution to the problem indicates a continued reluctance on the part of the government to take aggressive action against the guerrillas.

Economic

43. Coffee is the mainstay of the nation's economy. Colombia is the world's largest producer of mild coffee which is essential for commercial blending. It supplies 16 percent of all the coffee that moves in international trade, being second only to Brazil. It depends upon the export of coffee, and to a lesser extent petroleum and bananas, to obtain most of its requirements of industrial raw materials and manufactured goods. Because coffee accounts for one-half of the value of Colombian agricultural production and supplies over 80 percent of the country's foreign exchange receipts, the nation's economic situation has been highly sensitive to fluctuations in the international coffee market. In an effort to reduce this dependence, the post World War II governments have pursued vigorous policies of industrialization.

44. From 1945 to 1954 Colombia's rate of economic growth steadily remained among the highest in Latin America, with an annual four percent per capita increase in GNP. The latter was

estimated in 1954 at $3.4 billion of which industry accounted for 16 percent and agriculture 36 percent. Industry's rate of growth was twice that of agriculture.

45. Colombia's rapid growth was stimulated and maintained by a climate favorable to the expansion of foreign and domestic private investment and by an energetic public investment program. In the 1945 to 1954 period, an annual average of 18 percent of the gross income was devoted to investment. Approximately 11 percent of gross investment derived from foreign capital inflow, about half of which came from Eximbank and IBRD sources.

46. Between 1945 and 1953, Colombia was able to maintain an increasingly high level of imports. This was due to improvement in the terms of trade resulting largely from rising coffee prices, to the spending of international reserves accumulated during World War II, and to foreign loans and investments. During this period, while the annual volume of exports rose only 1.4 percent, the volume of imports expanded by 10 percent annually.

47. An abrupt drop in the world price of coffee in August 1954, however, posed a threat to Colombia's development aspirations. In one year (June 1954–June 1955) spot prices in New York for Manizales coffee dropped one-fourth ($.85 to $.64 per pound). Receipts from coffee exports dropped from $524 million in 1954 to $465 million in 1955. As a result, Colombia's foreign exchange position weakened. Arrears on foreign commercial obligations at the end of 1955 amounted to between $125 and $150 million.

48. Despite the reduction in earnings from coffee, the Rojas Pinilla regime has decided to maintain its development activities at a high level and to adhere to a large public works program and expansion of industry, even if this involves deficit financing. A domestic steel plant, constructed despite recommendations to the contrary by the IBRD, was opened in 1955, and plans were being made for the development of complementary industries. The government's program for electrification, road, and railway building, as well as its ambitious Cauca Valley project, also continued apace. These expansionist operations were reflected in a sharp rise of the government's internal debt from 489 million pesos at the end of 1954 to 880 million pesos by the end of November 1955. Moreover, the government is committed to support coffee prices to growers regardless of world prices which, it is estimated, will decline over the next few years.

49. Although these economic policies increased inflationary pressures, the country's economic position remained fairly healthy in 1955. Relatively stable prices were maintained in large part by price controls and an absence of wage increases. Domestic producers were able to supply an increasingly large part of the demand for agricul-

tural and manufactured goods. Coffee prices, though reduced, were still good. Early in 1956 the government began reducing its internal debt by selling its steel mill to private operators and by refunding operations. It also planned to restrict imports—but not so much as to hinder seriously its economic expansion—in order to liquidate outstanding commercial arrears accumulated as a result of expanded imports and reduced foreign exchange earnings during the last half of 1954 and 1955.

International Relations

50. In the first two decades of the twentieth century, relations between Colombia and the United States were strained because Colombia attributed the loss of Panama to US intervention, but ties have been cemented in the past generation. The role of the US in Colombia's economic development has expanded rapidly; both as a trading partner and as a source of investment, the US is more important to Colombia than all other countries combined. Colombia has shown strong support for the inter-American system and has ranked high among the Latin American nations in backing the US position in the East-West struggle. Colombia was the only Latin American nation to contribute forces to the United Nations Command in Korea (one infantry battalion and one escort vessel).

51. However, in the United Nations, Colombia, along with other Latin American nations, has often opposed the US in voting on economic, colonial, and trusteeship issues. In the Organization of American States, although Colombia has generally supported US political and defense objectives, it has also been critical of US economic policies, and like the other Latin American republics, it resents the fact that US assistance programs have favored European and Asian nations.

52. The most serious issue in Colombian-US relations arises from the anti-Protestant policies of the government and of the Catholic Church. Several instances of violence to the life and property of US Protestant missionaries have recently occurred. Despite formal protests by the United States, the Rojas Pinilla government has neither reprimanded the guilty nor taken action to insure freedom of worship as guaranteed by the Constitution. The US-Colombian Treaty of Friendship, Commerce, and Navigation, signed in 1951, has not been ratified because of the Colombian Catholic hierarchy's fears that it would give Protestants equal rights with Catholics.

53. Colombia's ties with the Soviet Bloc are not close. It severed relations with the USSR in May 1948 following the Bogota rioting. In 1955 Colombia and Czechoslovakia agreed to establish consular relations. Trade with the Bloc is insignificant. There are no official

trade and payments agreements and only a limited exchange of goods with Czechoslovakia and East Germany.

54. Colombia's relations with other Latin American countries have been generally friendly. It has taken the initiative in attempts to strengthen economic ties with neighboring Venezuela, Ecuador, and Panama, all of which originally formed part of Gran Colombia. Colombia and Ecuador maintain particularly close ties based upon historical and economic considerations and their mutual distrust of Peru. Colombia's antagonism toward Peru dates from 1931, when Peruvian troops attempted to seize Leticia, Colombia's remote port on the Amazon River (see map). It became more acute as a result of Peru's efforts, in violation of Latin American custom regarding political asylum, to force Colombia to surrender Haya de la Torre, a Peruvian opposition leader who took refuge in the Colombian embassy in Lima in 1949. That affair was finally settled in 1954, but tension between the two countries continues in consequence of Colombia's demonstrated sympathy with Ecuador in Ecuador's boundary dispute with Peru. Colombia's generally amicable relations with Venezuela have been ruffled in the past several years by rival claims to a small group of offshore islets and by Venezuela's friendly attitude towards Peru.

III. Probable Future Developments

55. We believe that Rojas Pinilla will remain in office at least through 1956. The military will almost certainly continue to support the regime. It is unlikely that the opposition parties will overcome present weaknesses or adopt more militant tactics or that the guerrillas will be able to increase their capabilities significantly during this period. Furthermore, based on the present outlook for coffee prices, 1956 will probably be a relatively good year economically for Colombia.

56. Beyond 1956, Rojas Pinilla's prospects are less certain. The irreconcilable issues between the traditional parties on the one hand, and the government on the other, will probably increase political tension, in which case the chances for violence and public disorder will be greatly magnified. The traditional parties are likely to maintain and even to increase pressure for the re-establishment of the constitutional process. In response to this pressure the administration is likely to resort to increasingly repressive measures against its critics from either of the two parties. The political isolation of the government is likely to become accentuated. In this climate the armed forces might oust Rojas Pinilla in an attempt to restore stability and preserve their continued control of the government.

57. The Rojas Pinilla regime will probably be unable to eliminate the guerrilla movement although, by increased effort, it may be

able to restrict further the area of guerrilla activities. Further deterioration of the political situation would tend to increase the number and activity of the guerrillas. Communist influence among the guerrillas is likely to increase, and, with Communist coordination and direction, guerrilla operations may become more effective, but the guerrillas cannot seriously threaten the regime without coming out into areas where the armed forces could operate against them more effectively. Only if the Liberals were to give the guerrilla movement substantial support and leadership would it be likely to become a serious danger to the regime within the period of this estimate.

58. On the economic front, it is unlikely that the price of coffee will decline sufficiently to force the government to curb substantially its expansionist policies during 1956. We also believe that the nation's development boom has enough momentum to insure continued increases in foreign investment, domestic industrial growth, and GNP. Assuming judicious use of available exchange resources and barring any reckless increase of deficit financing by the government, the monetary authorities will probably be able to maintain a fairly stable balance of payments position and keep domestic inflationary forces under control. However, the regime will eventually face additional problems if, as anticipated, world coffee prices decline appreciably over the next few years. In this case, the government would be faced with the problem of either continuing expansionist policies by increasing taxes and reducing subsidies to coffee producers, or of effecting an unpopular retrenchment.

59. The armed forces will remain united in their support of Rojas Pinilla only as long as the officers generally remain convinced that his leadership is effective and that he has not become a political liability. A great increase in political tensions accompanied by serious deterioration in the economic situation would probably lead the armed forces to depose Rojas Pinilla. In this event the nature and orientation of any successor government will almost certainly be determined by the armed forces. We are unable to estimate whether a successor government would be able to re-establish orderly political processes.

60. Rojas Pinilla has announced that the state of siege will not be lifted and that elections will not be held during his tenure of office. These policies will almost certainly precipitate a political crisis as the expiration of the President's term of office on 7 August 1958 approaches.

61. Increasing Communist influence in the guerrilla movement could have great political significance in the very long run, but it is not likely that the Communists could, by this means, become a serious contender for political power in Colombia within the period

of this estimate. They might, however, become able to exact political concessions as the price of a cessation of guerrilla activities, particularly if and when the Rojas Pinilla regime were overthrown by other political forces.

62. Neither the Rojas Pinilla regime nor any probable successor is likely to alter Colombia's policy of close cooperation with the United States in resisting Communism and maintaining peace in the Hemisphere. Colombia will almost certainly continue to rank high among the Latin American republics in support of the West as against the Soviet Bloc in the United Nations. However, Colombia's current small volume of trade with the Soviet Bloc probably will expand somewhat and diplomatic relations may be revived. Although it is unlikely that the Rojas Pinilla regime will withdraw its support of the Church's campaign against Protestant activity, it is almost certain that the generally friendly diplomatic relations and close economic ties between Colombia and the United States will continue.

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451. Editorial Note

In a letter dated April 12, E. Perkins McGuire informed Deputy Under Secretary Robert Murphy that the Colombian request for loan of two destroyers had been submitted to the Joint Chiefs of Staff for their comments. (Department of State, Central Files, 721.5–MSP/4–1256)

In telegram 789 from Bogotá, May 23, C. Montagu Pigott, Counselor of the Embassy, reported that the Embassy had been informed by Admiral Arleigh A. Burke, Chief of Naval Operations, that the Joint Chiefs and the Secretary of Defense had approved the loan of ships to several Latin American countries, including Colombia. (*Ibid.*, 721.5–MSP/5–2356)

In a memorandum dated August 14, Gerberich informed Bernbaum that the United States Congress had "failed to take action on proposed legislation which would have made it possible for Colombia to obtain two destroyers on a loan basis. The Colombian Ambassador is aware of this, and also aware that the Department did its best to urge favorable consideration of the proposed bill." (*Ibid.*, 821.413/8–1456)

452. Memorandum From Albert H. Gerberich of the Office of South American Affairs to the Director of the Office (Bernbaum)[1]

Washington, April 26, 1956.

SUBJECT

Banco Popular and its Difficulties with U.S. Banks

On Tuesday, April 24, Mr. Corliss[2] and I had lunch with Mr. Francis X. Scafuro, Vice President of Bank of America, and Mr. Henry Grady of the same institution. Mr. Scafuro told us he is flying to Bogotá on Thursday and will discuss with the Minister of Finance, with the Chief of the Office of Exchange Control,[3] with Luis Morales Gomez (President of the Banco Popular), and probably with President Rojas himself the debts owed to eight U.S. banks by the Banco Popular. He said he is very much disappointed with Morales' actions, and is definitely of the opinion that there is bad faith in his dealings.

He said that the eight banks were recently paid a total of some $700,000 on account, but these payments were insufficient, were not allotted in proportion to the amount of the balance due each bank, and were made in such a manner that it was impossible to ascertain just what items were being paid off. The Bank of America also knows that exchange was obtained from the Office of Exchange Control to make additional remittances but was not used by the Banco Popular for the purpose. At one time, Scafuro says, the entire indebtedness to the Bank of America was authorized, but Morales never made payment.

The total amount owed the eight U.S. banks is still well in excess of $4,000,000, U.S.C. Over $3,000,000 is still owing the two largest creditors. During the past month Bank of America received a remittance of $250,000 and Banco Popular still owes it about $920,000. It has examined the balance sheet of the Banco Popular and cannot make head or tail of it. An arrangement had been agreed upon whereby Banco Popular was to remit it $100,000 monthly, but this has not been followed. Morales Gomez was recently in New York and gave a big party while he was there, carefully excluding all representatives of Irving Trust Company and Bank of America. He has now set up between 55 and 60 branches of the Banco Popular in half a dozen countries and has evidently over-extended himself. The big question in the Bank of America's mind is whether the Banco Popular is solvent.

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[1] Source: Department of State, Central Files, 821.14/4–2656. Confidential. Also addressed to Bainbridge C. Davis and William Belton.

[2] James C. Corliss, adviser and alternate to the U.S. Representative to the Inter-American Economic and Social Council of the United Nations (IA–ECOSOC).

[3] Enrique Gamboa.

Mr. Scafuro also referred to the drop of the peso to the neighborhood of 4.80 to the dollar last week-end and said he would not be surprised if Finance Minister Villaveces would have to swallow his words and consent to devaluation very shortly, perhaps even this week.

He said he expected to call on Ambassador Bonsal and Acting Commercial Counselor Hammond while he is in Bogotá and keep them fully informed of his activities.

On Wednesday morning, April 25, Mr. August Maffry, of the Irving Trust Company,[4] called at my office and left with me a letter from the Vice President of his firm, Mr. Michael Sieniawski, which he asked me to send by pouch to Ambassador Bonsal. He also asked me to make an appointment for him to talk with Ambassador Bonsal when the latter gets here, saying it is known in New York that he will be coming up on May 5. I glanced through the letter and noticed that it concluded by asking the Ambassador if he could use his good offices in correcting the situation. I told Mr. Maffry that we could promise him lots of sympathy but I did not see how we could promise any formal intervention at this stage. Mr. Maffry made no comment, but shrugged his shoulders.

He told me he had had a conversation with Albert Waterston of the International Bank, and that Mr. Waterston was very pessimistic about the Banco Popular case and believes it will hurt the good name of Colombia and may affect Colombia's chances of getting all the credits it desires this year.

I happened to speak with Mr. Russell Lutz of W.R. Grace & Co. later this morning and asked him if he was au courant regarding the status of the dispute between the Grace Bank and the Banco Popular. He said he was not, but would be shortly talking to New York. I asked him if he would let me know the amount owing the Grace Bank if it is not confidential, as I already know the amount owing the other banks.

This afternoon Mr. Lutz gave me the interesting information that one month ago the Banco Popular owed the Grace Line [*Bank*?] half a million dollars or a trifle more, but recently one of its Vice Presidents made a trip to Colombia and came back with $250,000, reducing their debt approximately by half. Mr. Lutz added that the

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[4] In a memorandum of conversation dated March 2, Gerberich reported that Maffry, a Vice President of Irving Trust, had stated that relations between the Banco Popular of Colombia and Irving Trust had deteriorated to the point that all business transactions between the two banks has ceased. (Department of State, Central Files, 821.14/3–256)

Grace Bank is *not* interested in having the State Department get into the picture on its behalf, if we are contemplating any such action. He said it is true that it has been working conjointly with the other seven creditors in keeping each other informed on what is happening and coordinating their efforts to effect payment, but his company does not want any pressure brought by the U.S. Government at this time, and the President of Grace Bank told the Irving Trust Company representatives exactly that two days ago. He says his firm is well aware that Morales Gomez is very close to President Rojas and that Rojas and the Government have an interest in the Banco Popular, and it is believed the difficulties can be ironed out without using straight-arm methods.

On Wednesday afternoon Mr. Scafuro phoned me again to tell me all his arrangements have been made and he would be off in the morning. He said Ambassador Urrutia has injected himself into the proceedings, had discussed the Banco Popular with Waterston, and had called Finance Minister Villaveces suggesting a meeting of the latter, President Rojas and the head of the Banco de la Republica with Scafuro if it can be arranged. In the meantime Scafuro had talked with Martin del Corral, President of the Bank of Bogotá, an old friend who advised him to see Villaveces first of all and get his advice when he arrives in Bogotá; del Corral later made an appointment for him to see Villaveces at 9:00 A.M. on Saturday, April 28. Scafuro then got in touch with Waterston, who advised him to see the President in any case. He agrees with Maffry that Waterston is quite upset about the Banco Popular's handling of its debt problem.

Mr. Scafuro has heard that dozens of army officers are said to be indebted to Morales Gomez' bank, and for this reason he fears the President will be fearful of taking any strong action—Morales may have too much support in the armed forces. For this reason he is a little hesitant about going to the President in the matter.

Scafuro also told me that the Consulate General in New York wrote in ink alongside his visa the words "Always on the understanding that passport is valid", something that was not done last year when he went to Colombia. I asked Mr. Castello[5] of the Colombian Embassy about this, and he said it is nonsense, and he is going to inquire into the reason for such an inscription. In the meantime he told me to tell Scafuro to proceed to Colombia at the Colombian Embassy's risk, and get in touch with it if he should have any trouble on landing at Bogotá.

I have collected the following figures (approximate) on the total amount still owed by the Banco Popular to U.S. banks:

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[5] Edmundo Castello Nieto, First Secretary of the Colombian Embassy.

Irving Trust Company	$1,328,000
Bank of America	920,000[6]
Marine Midland	450,000[7]
Colonial	450,000
Schroeder	375,000
Grace	250,000
Philadelphia National	250,000
A Miami bank	130,000
Total	$4,253,000

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[6] This includes original principal of $845,000 plus interest and some smaller items. [Footnote in the source text.]

[7] The indebtedness to the Marine Midland Bank is "substantial"; I do not think this figure is too high. [Footnote in the source text.]

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453. Memorandum From Albert H. Gerberich of the Office of South American Affairs to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, May 3, 1956.

SUBJECT

Eximbank Loans for Colombia

After staff meeting this morning I called a friend at the Eximbank to see if I could learn anything more about the Paz de Rio loan. Without mentioning Mr. Knapp's conversation with Mr. Holland I began by asking him if he had heard any more about the exchange situation.

Apparently I picked a subject that has been giving him a great deal of unhappiness for he said at once that he has come to the conclusion that all the new regulations that the IBRD has talked the Colombians into taking have as one of their important objectives the elimination of the Eximbank as a supplier of credit and giving IBRD itself a monopoly. He added that a recent telegram of April 26 from Bogota (No. 731)[2] disturbed him very much, because it seems to indicate that the IBRD is taking the Paz de Rio application out of Eximbank hands.

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[1] Source: Department of State, Central Files, 821.331/4–2556. Confidential. Also addressed to Bainbridge C. Davis, William Belton, and Maurice M. Bernbaum of the Office of South American Affairs.

[2] In telegram 731, dated April 25, Bonsal stated that he had been informed that the Board of Directors of the Paz de Rio steel plant had accepted the major recommendations of the World Bank mission. According to the telegram the recommendations "involve house cleaning and contract with foreign firm for plant operations as prerequisite engineering of plant expansion." (*Ibid.*)

He said that the new regulations remove imports of machinery from the preferential and first class lists to "2d Class, Special". This has the following effects:

1. An excessive prior deposit must be made, which may be as high as 50% on sight drafts.
2. In the new category there is a 10% tax.
3. The necessary dollars must be bought in the free market, in which the exchange rate now stands at about 4.80, whereas they have been bought previously at the official rate of 2.50.

It looks to him from this as if the new regulations will kill exporters' credits for Colombia, for he cannot see how the Eximbank can take the risk involved, or be sure the importer will accept the free market rate. The free market dollars, he says, come from sales of bananas and other minor products; the IBRD has seen to it that it gets first claim on all coffee dollars.

He said the net result of the new regulations may be to halt industrialization in Colombia. The Eximbank puts money into Colombia that will either earn or save dollars for the Colombians. The IBRD projects are a drain on the economy. The big highway program, the controversial Magdalena Railway are examples of this. Even electrical power development on an expanded scale may be questionable, for the question can be asked: "Electrical power for what, if you're going to stop industrialization?"

I asked him if he had heard anything more about the Paz de Rio credit, and on that subject he expressed some indignation. He said Urrutia has been back two or three weeks now, and has not come near the Bank. He promised to bring back with him Umaña, the manager of the steel enterprise, and sit down and discuss the credit they want. Now he hears that Umaña is going on to Europe to look into the possibility of getting credit for expanding the plant from the French—evidently with IBRD's blessing.

All in all, he painted a very gloomy picture. To him the one bright element in the picture was the knowledge that Assistant Secretary Holland is personally interested in the success and promotion of the activities of the Eximbank as a 100% U.S. institution.

He asked me to keep him informed if I should hear anything about Umaña or if Urrutia should bring up Paz de Rio again at any time.

454. Memorandum of a Conversation, Bogotá, July 24, 1956[1]

SUBJECT

Status of Protestants and Treatment of the Press in Colombia

PARTICIPANTS

The Secretary of State[2]
The President of Colombia
Assistant Secretary Henry F. Holland

After initial amenities, the Secretary told the President that he would like to discuss frankly two subjects which he felt were detracting from the excellent relationships between the United States and Colombia. He said that they were internal Colombian problems and matters in which our government had no intention of intervening officially, but that he wanted to make certain statements personally to the President.

The first subject, the Secretary said, was the matter of the status of Protestants in Colombia. He said that the closing down of Protestant churches and schools was causing a very adverse public opinion in the United States.

The President of Colombia replied that he had a difficult problem with certain religious fanatics in Colombia and that he was working to try to diminish the problem.

Mr. Holland stated that before leaving Washington he had been advised that there was a possibility that the Government might issue orders permitting the reopening of the Protestant churches and schools which had been closed. This, he said, would make a very excellent impression throughout the United States, and stated that he felt that if this could be permitted at this time the effect would be particularly favorable. The President was evasive in his reply, merely stating that he was working in that direction.

The Secretary then said that the other of the two points that he wanted to mention was that of the treatment of the press. He said that he realized that the institution that we know as the free press had many defects; that in the United States and everywhere it was guilty of occasional excesses and injustices, but that, as bad as these defects might be, worse than a free press would be a press without freedom. He emphasized how the press of the world united to resist any attempt to limit freedom of the press in any country, how world press had bitterly attacked the Government in Argentina on account of its closing down of *La Prensa*.

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[1] Source: Department of State, Central Files, 821.413/7–2456. Secret. Drafted by Holland on August 20.

[2] Secretary Dulles accompanied President Eisenhower to the Meeting of Presidents of the American Republics in Panamá July 21–23, 1956. For documentation on this meeting, see vol. VI, Documents 109 ff. From Panamá, Dulles went to Colombia on July 24, Ecuador on July 25, and Peru July 26–28.

Mr. Holland then stated that on the occasion of his last visit the President and he had discussed this same problem, and that the President had told him that it was his intention to nominate a panel of legal experts to draft a press law which would guarantee freedom of the press while assuring its responsibility. Mr. Holland pointed out that this announcement had been received very favorably abroad and asked whether the issuance of such a decree was in prospect. The President replied that he was working to enlarge freedom of the press; that recently a press congress had been held in Bogotá; that out of some 35 publications, 31 were present. He said that the panel of jurists which he had named to draft a press law had, in fact, produced such a draft, but that it was receiving study and that he expected certain improvements to be made in it.

The Secretary then said that he was pleased to be able to advise the President that the administration had offered legislation authorizing the lending of destroyers to Colombia; that it was not probable that the legislation would be enacted in this Congress, but that the administration would continue its efforts to secure enactment of the legislation.

The President spoke somewhat feelingly of his affection for the United States, saying that he had lived there; that he had been educated there; that his son had been educated there and that he considered the United States his second country.

The Secretary said that he hoped that the President viewed favorably President Eisenhower's proposal to name representatives of the various Presidents who would, in turn, prepare recommendations as to measures which could be adopted to improve the activities of the Organization of American States. The President said that he considered the proposal an excellent one and that he felt sure that it would produce worthwhile results.

455. Memorandum of a Conversation, Foreign Ministry, Bogotá, July 24, 1956, 3 p.m.[1]

SUBJECT

Visit of the Secretary of State to the Colombian Minister for Foreign Affairs

PARTICIPANTS

The Secretary of State, John Foster Dulles	Minister for Foreign Affairs, Dr. Evaristo Sourdis
Assistant Secretary, Henry Holland	Secretary General of the Ministry, Dr. Joaquín Piñeros Corpas
Assistant Secretary, Carl W. McCardle	Interpreter, Sr. José María Chavez
Ambassador Philip W. Bonsal	
Mr. Maurice Bernbaum	
Mr. William B. Macomber	
Counselor of Embassy, C. Montagu Pigott	

After the usual exchange of greetings, the Secretary of State addressed himself to Foreign Minister Sourdis expressing his regret that due to the pressure of events in countries neighboring upon or threatened by the policies of Soviet Russia he had not been able to travel in the American Republics as much as he had wished. He was happy that the Panama meeting had provided this present opportunity and the opportunity to know at least some of the American Republics on a better basis.

He had not come to Colombia to transact any business as he left this phase of relations in the able hands of Ambassador Bonsal and Assistant Secretary Holland. Short though it was, he considered this interlude as something of a vacation trip. He saw no serious problems existing between Colombia and the United States and what he had discussed with the President was mostly in the realm of personal matters. Unless the Foreign Minister had some particular problems that he wished to bring up at this time, the Secretary of State said he would like to consider the present reunion as a personal visit and an opportunity to become better acquainted.

Foreign Minister Sourdis said that he understood completely how busy the Secretary was and that therefore his visit to Colombia was doubly appreciated. He was very pleased to receive this visit of the Secretary as a gesture aimed at a better understanding of Colombia and its people. He hoped that the Secretary might find the occasion to repeat this visit and thus increase his knowledge and intimacy with Colombia and other Latin American countries. The Secretary was, said the Foreign Minister, an element of society to whom western culture could be especially thankful.

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[1] Source: Department of State, Secretary's Memoranda of Conversations: Lot 64 D 199. Confidential. Drafted by Pigott. Initialed by William B. Macomber, Jr., Special Assistant to the Secretary of State, indicating his approval.

The Foreign Minister was happy to say that he saw no problems and to be assured that neither did the Secretary. He hoped that there never would be any. He wanted the Secretary to know how pleased he was to see and to sense the atmosphere of cordiality which attended the present visit. If anything, it increased the feeling of gratitude which the Colombian people felt for the Secretary's gesture in coming here.

The Secretary of State, in acceptance of the Foreign Minister's greeting, told him that the United States has shown the high esteem in which it holds Colombia by sending here one of its most able Ambassadors. The Ambassador in return spoke of the extreme cordiality which has surrounded all of our official relationships and said that the happy situation which we enjoy here is due in large part to the fact that the foreign relations of Colombia are in the hands of so great and human a personality.

Secretary Holland explained that his work took him to many Chanceries but in none did he sense greater sincerity, feel a greater sense of friendship, nor feel more at home than he had in this one. It was in consequence a special pleasure that he had been afforded in being able to accompany the Secretary of State to this Chancery. The Foreign Minister expressed a sense of emotion in being, as he said, overcome by this manifestation which he accepted not as a personal tribute but as a tribute to Colombia in recognition of its policy of the constant support of democratic ideals, of the support of United States policy in these respects and of its refusal to vacillate or to adopt a middle course on such fundamental issues.

The Secretary of State, addressing the Foreign Minister, said that with western civilization facing its greatest crisis in one thousand years the future of nations, in his belief, depended upon their basic faith. It was no accident, he said, that Far-Eastern leadership—democracy's forward position—is in the hands of three dedicated Christian leaders—Syngman Rhee in Korea, Chiang Kai-shek in China and Ngo Dinh Diem in Vietnam[2]—in Vietnam in particular the building of a bulwark against communism was almost a miracle—a miracle which had its roots in a great demonstration of faith.

The Secretary believed that the good relations between the United States and Colombia were built upon the same sets of values.

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[2] Presidents of the Republic of Korea, the Republic of China, and the Republic of Vietnam, respectively.

We were going in the same direction he said which made it easier to understand and thus to solve whatever problems might come up.

The Foreign Minister, referring to speeches which he attributed to the Secretary of State, said that in those speeches the Secretary had said that we must not only extend good diplomatic treatment one to the other but that we must come to understand each other's attitudes toward life and each other's spiritual outlooks since such fundamental aspects of national life dictate many of our actions. Happily, said the Foreign Minister, our respective outlooks are based on similar feelings, similar ideals and similar understanding. We are fighting for the same ends; hence, our relations tend to develop in a broader, more unselfish phase than were we to have somewhat different outlooks.

Some neutral world leaders, said the Secretary of State, are saying today that the international situation is only a struggle between two great powers. Those who say this could not be more wrong: it is a struggle between two very different principles. Despite the claims of some, the United States never has had and has not now any desire to aggrandize itself. This has been dramatically shown in the last fifty years when twice we had the world in our grasp and twice gave back to the conquered their liberty and returned home. People who say that this is only a power struggle must have some special purpose in so saying since the falseness of the statement is patent in itself.

In this respect, said the Foreign Minister, some people [are] inclined to feel that the United States wants to be more powerful than Russia. If this were the fact, the United States could have become so long ago. Never has any people sacrificed so much for its ideals as has the American people. This is a phase often overlooked. In this present situation the world must decide between two states of affairs—whether the individual shall be the slave of the state or whether the state shall remain the instrument of the individual. These two extremes are so far apart and so fundamentally different that neutrality in the face of such a decision is impossible.

Colombia within its capacities tries to support these ideals of the western world. The President of Colombia himself supports them and tries to cooperate on the side of the United States in maintaining them even though he is not always portrayed in this light by the press.

The Secretary of State then asked the Foreign Minister whether or not we were then expected at a wreath laying ceremony at the Bolívar monument whereupon the meeting adjourned thereto.

456. Memorandum From Albert H. Gerberich of the Office of South American Affairs to the Director of the Office (Bernbaum)[1]

Washington, August 10, 1956.

SUBJECT

Status of Pending Problems with Colombia

1. *Religious Problem.* In Telegram 81 of August 3[2] Ambassador Bonsal requested "Maximum amount ammunition in order to make strong representations regarding importance we attach to situation which has now hung fire nearly four months in spite of series of promises that settlement imminent." After consultation with L/ARA, Tel. 98 of August 8[3] was sent Ambassador Bonsal, authorizing him in his discretion to make representations, stressing: Long delay in clearing up situation; unprovoked continuing attacks on missionaries and missions inside and outside mission territories; concern expressed to President Rojas by Secretary Dulles; impairment of U.S. goodwill toward Colombia because of anti-Protestant policy; 1846 Treaty[4] provisions and those of Article 53 of Colombian Constitution applicable throughout all the territory of Colombia cannot be abridged by decrees or agreements to which the U.S. is not a party.

2. *Cali disaster relief.* At 1:07 a.m. on August 8 a terrific explosion, apparently caused by accident or sabotage of several truckloads of TNT parked near the Codazzi engineers barracks and the old freight station in Cali, razed 8 city blocks and caused casualties estimated between 1200 and 2000. As soon as word reached the Department contact was made with the American Red Cross and other relief agencies and with the Pentagon and by 4:00 p.m. a plane load of supplies with a public health service doctor and the Panama representative of the American Red Cross was on its way to Cali. On the afternoon of August 9 the Colombian Government informed the representative that the supplies furnished were ample and thanked him for his prompt assistance; he has now returned to Panama. There were no U.S. casualties.

3. *Bilateral Aviation Agreement.* Our Embassy was informed on July 31 that President Rojas had authorized acceptance of the final U.S. route proposal contained in the text of the agreement transmitted to

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[1] Source: Department of State, Central Files, 821.413/8–1056. Confidential.

[2] Not printed. (*Ibid.*, 821.413/8–356)

[3] Not printed. (*Ibid.*)

[4] A bilateral Treaty of Peace, Amity, Navigation, and Commerce was signed by representatives of the United States and Colombia at Bogotá on December 12, 1846, and entered into force on June 10, 1848. For text, see 9 Stat. 881.

Bogota. However, Ambassador Obregon,[5] head of the Colombian negotiation team, raised several points that he considers "minor" ones which must be ironed out before he is satisfied with the text. A full statement of these proposed textual changes was furnished the Department in Despatch 66 of July 31[6] and they are now being studied. Inasmuch as there was general concurrence in Bogota on the text of the agreement, there is suspicion in the Department and CAB that Obregon's "minor changes" represent his attempt to prolong or prevent the signing of the agreement. It is planned to discuss these changes with the carriers on Tuesday, August 14, and submit a report to the Board on Wednesday or Thursday. The Colombian Ambassador has informed the Department that Avianca Airlines[7] no longer opposes the agreement and considers it a fait accompli; it is already trying to get larger planes to permit it to compete more favorably with Braniff Airlines and is studying arrangements to call at San Juan en route to Europe.[8]

4. *Rumors of a Possible Coup in Colombia.* From . . . Air Attaché in Bogota,[9] and from our Embassy have come reports indicating the possibility of a coup d'état to overthrow the Rojas Government. Our Embassy is also of the opinion that the Cali disaster may further weaken the Government's position. President Rojas is already trying to deflect popular indignation toward his opponents by connecting the tragedy with the manifesto issued by Laureano Gomez and Lleras Camargo, calling on both parties to unite their efforts in restoring democratic processes. Evidence of wholesale graft, involving the President's own family, contribute to the general dissension. The guerrilla warfare seems to be spreading.

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[5] Mauricio Obregón, Colombian Ambassador to Venezuela.

[6] Not printed. (Department of State, Central Files, 811.2194/7–3156)

[7] The Colombian national airlines, Aerovias Nacionales de Colombia.

[8] On October 24, a bilateral Air Transport Agreement was signed in Bogotá by Ambassador Bonsal, Colombian Foreign Minister José Manuel Rivas Sacconi, and Ambassador Obregón. The agreement entered into force provisionally on January 1, 1957. For text of the agreement, see 14 UST (pt. 1) 429. For documentation on the negotiations leading to the signing of this agreement, see Department of State, Central Files 611.2194 and 821.431.

[9] Colonel Gerald W. Crabbe.

457. Memorandum of a Conversation, Department of State, Washington, August 22, 1956[1]

SUBJECT

Failure of Colombian Government to take Steps to Improve Protestant-Catholic Situation in Colombia

PARTICIPANTS

Colombian Ambassador Francisco Urrutia Holguin
Deputy Assistant Secretary Roy J. Rubottom, Jr.
Colombian Minister-Counselor Ricardo Anaya
OSA—Albert H. Gerberich

Mr. Rubottom told the Ambassador he was sorry that we have to bring to his attention the failure of the Colombian Government to improve the situation in Colombia so far as United States Protestants are concerned. It seems as if every time the Colombian Government takes a step forward it takes two steps backward. We cannot understand why it is so difficult for the Colombian Government to take a firm, consistent position with respect to this troublesome problem.

Despite assurances that a formula was to be found which would permit the Protestant churches that have been closed by Government orders to reopen again, nothing has been done. Moreover, incidents of violence against United States Protestants continue. We are especially disturbed to learn that President Rojas has again made statements linking Protestantism with Communism.

The Ambassador asked that we tell him specifically what statements President Rojas has made. Mr. Rubottom paraphrased a portion of a telegram from our Embassy containing a public statement from President Rojas to the effect that he is about to publish a Red Book which will show that Protestants and Communism are linked together. The Ambassador said he was indeed surprised to hear this; he had been given positive assurances that President Rojas would make no more statements of this kind.

Mr. Rubottom said the Ambassador is aware that Secretary of State Dulles views the Protestant problem so seriously that he was particular to bring it to the attention of President Rojas when he was in Bogota. He said he has no doubt that this news from Colombia will greatly disappoint the Secretary. He will also be unhappy to hear that an 82-year old American lady, a missionary, was jailed on an unsubstantiated charge of printing and distributing Communist literature.

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[1] Source: Department of State, Central Files, 821.413/8–2256. Confidential. Drafted by Gerberich.

The Ambassador said he would try to discuss these matters by telephone with Bogota tonight and would ask for an appointment to talk further on the subject with Mr. Holland in the morning.

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458. Telegram From the Ambassador in Colombia (Bonsal) to the Department of State[1]

Bogotá, September 14, 1956—6 p.m.

229. Waterston of World Bank arrived here September 11 and is departing tomorrow instead of remaining longer period as anticipated. He appears appalled at conditions he has encountered and in view Finance Minister's resignation prospects for profitable conversations poor.[2] According to Waterston, Colombian Government has failed meet commitments economic measures on which World Bank credits based and prospects that World Bank will go beyond $16 million for highways already committed plus possible Bogota electric power loan similar amount appear very poor this year (World Bank last April had indicated probability total new credits $62 million during calendar 1956).

Waterston states backlog as of September 30 estimated at $280 million which is 50 million more than Colombian authorities admit. Central Bank reserves not over $90 million, of which 25 million includes monetary fund credit. Unsound investment projects plus heavy governmental expenditures largely military contribute to critical situation. Next Finance Minister will be confronted harsh decisions including devaluations since 2.50 official rate no longer sustainable.

I am much impressed by change in Waterston's normally optimistic attitude toward situation here.

There have been rumors and even press items regarding approach by Colombian Government to Export Import Bank for exchange stabilization loan. Embassy has had no information on this. Villaveces today told Waterston that he was "desisting" from any such approach.

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[1] Source: Department of State, Central Files, 821.10/9–1456. Secret; Limit Distribution.

[2] Nestor Ibarra succeeded Villaveces as Minister of Finance in September 1956. Ibarra was replaced by Luis Morales Gomez, President of the Banco Popular, in October 1956.

It appears to me important that US Government and World Bank cooperate in development accurate picture of economic problems here since coordinated "bail out operation" under rigorous conditions may be necessary if we are to avoid consequences of serious setback in development program.

Situation by no means hopeless in view basically promising conditions but heroic, unpalatable measures may well be required.

I believe it would be useful for Export Import Bank to send representative here to get first hand view of situation on which published statements and official pronouncements are possibly unreliable. Such visit could be described as "routine" and need not attract great publicity.[3]

Bonsal

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[3] In a memorandum dated September 26 to Bainbridge C. Davis, Maurice M. Bernbaum, and Terry B. Sanders, Jr., Gerberich reported on a conversation with Albert Waterston on the Colombian financial situation. Gerberich stated, "Waterston has strongly discouraged the idea of an Eximbank bail-out loan, both in talks up here and with Rojas and Villaveces in Bogotá." (Department of State, Central Files, 821.131/9–2656)

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459. Memorandum From Albert H. Gerberich of the Office of South American Affairs to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, February 4, 1957.

SUBJECT

Appointment with Ambassador Urrutia

I note that Ambassador Urrutia has asked for an appointment with you at 2:45 today and my guess is that he is going to tell you that Finance Minister Morales Gomez has obtained the consent of the U.S. banks to go ahead with his plan for liquidating the commercial debt.

The arrangement as I understand it is to pay the banks that accept his plan 60% of their debt in dollars at once and finance the other 40% with 4% bonds over a 30-month period. Morales told reporters on Saturday that he had already paid out $62,140,000 to 8 New York banks that had accepted and had between $3 and $4 million more for 3 others. There were still 8 other banks scattered across the country which would receive their money in due course. I am told that there were 30 banks in all with whom negotiations were carried on, of which 19 accepted. First National City Bank received the largest sum.

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[1] Source: Department of State, Central Files, 821.131/2–457. Confidential.

I understand that Morales obtained the dollars for paying off these banks by keeping the Office of Exchange Control closed through December and January and refusing to release dollars for commercial payments except in dribbles for emergency items. Maybe if he continues this policy long enough he may get himself out of the hole.

(N.B. I hardly think Urrutia will bring up the Protestant problem in view of the telegram received from Piggott over the weekend,[2] which says the Colombians are still giving us the run-around and goes so far as to recommend that we threaten Rojas through Urrutia with economic sanctions if Congressional agitation continues on this subject.[3])

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[2] Telegram 580, from Bogotá, February 1. (*Ibid.*, 821.131/2–157)

[3] In a letter dated February 8 to Gerberich, Pigott stated in reference to this memorandum:

"It would seem that my telegram No. 580 of February 1 was interpreted to mean that we should threaten President Rojas with economic sanctions should he not accede to a satisfactory solution to the Protestant church problem. . . .

"As I review my words, I suggested that we might approach President Rojas through Urrutia, explaining that the Protestant problem is assuming such proportions in the minds of the American people and many of the Members of Congress that it may well affect our entire relations and possibly jeopardize some of the programs which are presently being studied." (*Ibid.*, Rubottom Files: Lot 59 D 573, Colombia)

460. Memorandum of a Conversation, Department of State, Washington, March 28, 1957[1]

SUBJECT

Religious Problem in Colombia

PARTICIPANTS

Dr. Francisco Urrutia Holguin, Colombian Ambassador
Dr. Ricardo Anaya, Minister Counselor of Colombia
Mr. R. R. Rubottom, Jr., Acting Assistant Secretary of State
OSA—Mr. Gerberich

Mr. Rubottom said he is disturbed that no steps seem to have been taken to work out a solution to the problem of the closed churches in Mission Territory.[2] He said he supposed the Ambassador realized that the subject has been brought up on the Senate floor and that Senator Morse[3] had warned that this long unsolved problem is damaging the otherwise good relations between our two countries, and that he intends to follow future developments closely. Mr. Rubottom added that he himself had been called before four members of the Senate Foreign Relations Committee and had been quizzed regarding the problems of the Protestants in Colombia and he knew that there would be more questioning if there is no change for the better. It has come to be the most discussed subject in our relations with Colombia at the present time.

The Ambassador said he has been hard at work on this problem for the last fifteen days and has been in frequent touch with Bogotá on it. He said the Government is very sensitive toward this attempt to influence it to take steps favoring the Protestants and does not look kindly upon that sort of pressure campaign the U.S. Protestants have been carrying on by letters to U.S. Senators and Representatives.

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[1] Source: Department of State, Central Files, 821.413/3-2857. Confidential. Drafted by Gerberich.

[2] In telegram 652 from Bogotá, March 23, Bonsal informed the Department of State of a conversation he had with Foreign Minister Rivas on March 21 concerning Protestant missions in Colombia. After describing this conversation, the Ambassador stated:

"Only further step I can suggest is to have Secretary call in Urrutia and express his profound concern at this situation and imperative necessity in view interest of US public opinion for Secretary to make public statement at early date deploring fact that American interests and rights as well as general human rights have thus been trampled upon by Colombian Government. It is possible that threat such statement might bring about prompt action. Otherwise we can anticipate only continued delay and evasiveness since elements in this government which brought about closing of churches are stronger than more liberal elements at this time and since Foreign Minister noninfluential even granting intentions good." (*Ibid.*, 821.413/3–2357)

[3] Wayne Morse (D.–Ore.), Chairman of the American Republics Affairs Subcommittee of the Senate Foreign Relations Committee.

Mr. Rubottom said he thought the U.S. Protestants were exercising their rights as citizens in doing this, for they feel that under a democratic form of government this is an effective way to let the sentiment of the people be known. In view of the large number of Protestants in the U.S., it is not surprising that there has been such an inflow of letters to Congress.

The Ambassador said that regardless of this, there seems to be a tendency on the part of the Protestants and others to blame all this trouble over the Mission Territories exclusively on the Government of Colombia and to absolve the Roman Catholic Church from any responsibility or interest in the problem. He said he himself has heard expressions from Ambassador Bonsal and from U.S. Protestant leaders that neither Cardinal Luque nor the Papal Nuncio in Bogotá is interested in closing churches in Mission Territories and have brought no influence to bear in having this done. This is quite contrary to his own understanding. It was the present Subsecretary of State of the Vatican, Monsignor Antonio Samore, who as Nuncio at Bogotá signed the Mission Territory Agreement with Colombia, and he has always kept himself carefully informed regarding this problem. The Government is now planning to address the present Papal Nuncio in Bogotá and ask him whether he favors or condemns the action taken to implement the provisions of the Agreement.[4] The Ambassador then read Section 9 (c) of the Agreement of January 29, 1953, which provides that the Colombian Government is obligated to hear the views of the Catholic Hierarchy regarding the conduct of education in Mission Territory. In answer to a remark by Mr. Gerberich the Ambassador said this provision applies to church services as well as educational activities.

Mr. Rubottom said his initial reaction to this proposal is that we were not inquiring what the Cardinal or the Nuncio think about what has been done: what we want to know is what the Colombian Government thinks, and what it intends to do about the question.

The Ambassador said that it seems apparent there is a conflict between the language of the Mission Territory Agreement and that of the Treaty of 1846. Mr. Rubottom said if he remembered correctly, our Legal Division has expressed the view that there is no conflict in regard to the right of the Protestants to hold services. The Ambassador said he would like to see a copy of such an opinion; he thinks the language of Article XIV of the Treaty is vague on this point and does not guarantee Protestants the right to hold religious services everywhere in Colombian territory. In fact, he thinks that the provisions of the Colombian Constitution give the Protestants greater protection than the Treaty does. He suggested that it might be well to ask an international court to rule on Article XIV of the Treaty.

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[4] In telegram 615 from Bogotá, February 28, Pigott reported that the Papal Nuncio in Bogotá had stated that the Vatican "did not intend and does not consider 1953 agreement provides basis closing Protestant churches and prohibiting Protestant worship in mission territories." (Department of State, Central Files, 821.413/2-2857)

Furthermore, he said, the Protestants always come with complaints to the U.S. Embassy or to one or other of the Ministries. They have never tried a test case in the courts of Colombia. If they would do this, they could get a clear ruling on a concrete case. That is the course that would be followed in the United States.

Mr. Rubottom said he hoped it would not be necessary to submit the Treaty of 1846 to an international court for an interpretation or for the Protestants to fight out this issue in the courts of Colombia. Assurances have been given repeatedly by the Minister of Foreign Relations of Colombia and by President Rojas himself that a formula would be found to permit the Protestant churches to reopen, and that is what we have been waiting for. The Ambassador agreed that this is so, and that the delay has been caused by the Colombian Government trying to come to an understanding with the leaders of the Church in regard to the issues involved. Mr. Rubottom said he could only repeat that the question is becoming every day more serious and the Department is under pressure to find a solution which is daily becoming more insistent. He said he hoped the Ambassador would emphasize this in reporting this conversation to his Government.

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461. Editorial Note

In a memorandum dated March 21, Thorsten V. Kalijarvi requested Roy R. Rubottom, Jr., to review the question of negotiating a settlement for United States logistical support provided Colombia during the Korean conflict. This memorandum was accompanied by a paper which reported on the legal basis for settlement negotiations. (Department of State, Rubottom Files: Lot 59 D 573, Colombia) In a memorandum of April 16 to Kalijarvi, Rubottom recommended against the initiation of talks with Colombia on this issue. He stated, "The Colombians would, in all likelihood, respond that they can pay nothing. At present Colombia is confronted with an acute foreign exchange shortage. In its external accounts it has a large accumulation of commercial indebtedness." Rubottom recommended that negotiations be undertaken at a later time. (*Ibid.*)

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462. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Acting Secretary of State[1]

Washington, May 3, 1957.

SUBJECT

Deterioration in Colombian Political Situation

During the past few days the opposition to President Rojas from all quarters appears to have strengthened. Corruption on the part of Rojas and his family, foreign exchange difficulties, press censorship, suppression of all political opposition, and most recently a bald attempt to arrange his own re-election a year in advance of the usual period by means of a handpicked national assembly, have consolidated opposition within political, church, labor, business and apparently even high military circles. The Embassy hears rumors similar to those of last August that a military junta might take over; it feels that some substantial change is in the making although it may not materialize.

Through his ineptness the President has successively alienated one important element after another since he seized office in 1953: political leaders, business men, labor, clergy, and now the Embassy reports evidence of discontent within the Army itself. On May 1 the Ministers of War, Communications, and Public Works (all military), as well as the Commanders of the Army, Navy, Air Force and National Police, and certain other military called on the President in a body,[2] but what transpired at the meeting is not known. Today President Rojas, in view of the tense situation, cancelled the trip of the Commander in Chief of the Colombian Armed Forces[3] and the Commanders of the three services and the Police Force, who were to have arrived here May 6 at the invitation of our Armed Forces to visit the United States.

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[1] Source: Department of State, Central Files, 721.00/5–357. Secret.

[2] Major General Gabriel Paris, Minister of War; General Pedro A. Muñoz, Minister of Communications; Rear Admiral Ruben Piedrahita Arango, Minister of Public Works; Brigadier General Rafael Navas Pardo, Commander of the Army, Major General Deogracias Fonseca, Commander of the National Police Force.

[3] General Duarte Blum, Commander in Chief of the Armed Forces.

Finance Minister Morales Gomez, who recently negotiated a bond issue to aid in paying off the Colombian commercial backlog, is now representing Colombia at the meeting of the Committee of Presidential Representatives. He is known to have met with officials of the IMF in an effort to obtain another drawing and to have in mind a request to the Eximbank for obtaining additional financial aid. The financial situation of Colombia is believed to be worse than is generally known, and the desperate shortage of cash leads Morales to exhaust every effort. Our information is that the Eximbank will not grant Colombia a loan.

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463. Memorandum of a Conversation, Department of State, Washington, May 11, 1957[1]

SUBJECT

Visit of Colombian Ambassador to Announce Resignation of President Rojas

PARTICIPANTS

Dr. Francisco Urrutia Holguin, Ambassador of Colombia
Assistant Secretary Rubottom
OSA—Mr. Bernbaum, Mr. Gerberich

The Ambassador handed Mr. Rubottom a note (No. 630 of May 11, 1957)[2] informing the Department that Gen. Gustavo Rojas Pinilla on May 10 resigned as President of Colombia and designated a Military Junta of five officers to govern the country in his stead.[3] The note stated that the Military Junta announced as its principal objective the formation of a Government of National Unity in order that the people of Colombia may freely choose their President for the 1958–1962 term. It also stated that the Junta wishes to maintain, pursuant to Resolution 35 of the Ninth Interamerican Conference,[4] the excellent relations which have always existed between the Government of Colombia and that of the United States, and with that purpose in mind formally ratifies all obligations contracted by the Rojas Pinilla Government and all previous Colombian governments. He stressed the point that one of the major purposes of this note was to reassure the Colombian people as to the good faith of the Junta.

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[1] Source: Department of State, Central Files, 721.11/5–1157. Confidential. Drafted by Gerberich on May 13.

[2] Not printed. (*Ibid.*)

[3] The junta was composed of Major General Gabriel Paris, Major General Deogracias Fonseca, Rear Admiral Ruben Piedrahita, Brigadier General Luis E. Ordoñez, and Brigadier General Rafael Navas Pardo. For documentation on this subject, see *ibid.*, 721.00.

The Ambassador then stated that he had spoken with Finance Minister Luis Morales Gomez in Bogotá at 10 o'clock last night and had been told that President Rojas and his family left Bogotá at 6:30 P.M. for Jamaica and Bermuda and that the Junta was in full control.

He said he believed the next step of the Junta would be to set up a cabinet to which members of both political parties would be admitted, and that it would arrange for the holding of popular elections in July, 1958, as would be the case under normal conditions. He said that his greatest concern now was lest the two parties begin to quarrel amongst themselves. He said the demonstrators have been urging the appointment of individuals—he mentioned Alberto Lleras Camargo specifically—and said he hoped this would not mean a reopening of the traditional warfare between the parties. He thought that the possibility was that the Conservative Party, as the party most recently in power, would get the premiership (Ministry of Government) and the Liberal Party would get the Ministry of Foreign Relations, and the latter might well be Lleras Camargo.

Mr. Rubottom said he would regret very much to see interparty strife break out after the two parties had at last found it possible to work together harmoniously and had been able to agree on a joint presidential candidate. He said he hoped they would be able to continue their collaboration, and that they would give careful attention to the solution of the problem of the commercial debt, which has been the most serious one facing Colombia in recent months. He said he thought the austerity program that had been instituted was the right course to take, and he hoped the government would continue to pursue it. The Ambassador agreed, and said in his opinion the most important measure to take in this direction was to curb strictly the credit operations of the Colombian banks.

Mr. Rubottom said he also hoped that the new Government would earnestly seek to resolve the religious problem that has so long been disturbing our friendly relations. He said he was sure it would not be "swept under the rug", so to speak, at a moment like this; he could think of nothing that would be more encouraging than an amicable settlement of this difficulty. The Ambassador said he was not sure how receptive the Cardinal might be at the moment to renewed efforts toward this objective, but he had been for some time attempting to enlist the support of the Cardinal and the Nuncio through direct appeals. He reminded us that at his insistence the Colombian Government had addressed a note to the Nuncio, asking for a statement from the Vatican that reopening the closed Protestant churches in Mission Territory would not be considered a violation of the Missions Agreement of January, 1953. He said he had promised Messrs. Dulles, Holland and Rubottom that he would do everything in his power to clear up this problem, and he meant to do his best to accomplish this.

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[4] For text of Resolution XXXV, which concerns the continuity of diplomatic relations among the American republics, see *Ninth International Conference of American States, Bogotá, Colombia, March 30–May 2, 1948: Report of the Delegation of the United States of America with Related Documents* (Department of State Publication 3263, Washington, 1948), p. 271.

The Ambassador said he would continue to keep us informed of developments in his country.

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464. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, May 13, 1957.

SUBJECT

Change of Government in Colombia

Colombian Ambassador Urrutia informed us this morning that ex-President Rojas telephoned him from Bermuda at 10:00 A.M. yesterday to obtain visas for himself and family to enter the US.[2] The Ambassador dissuaded him from making this request and, through the Spanish Ambassador in Washington, obtained permission for him to enter Spain. Urrutia thinks Rojas and his family left Bermuda about 2:00 P.M. on Sunday for Madrid.

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[1] Source: Department of State, Central Files, 721.02/5–1357. Confidential.

[2] According to a memorandum of telephone conversation between Rubottom and Pigott on May 10, Pigott informed the Department that the Embassy had received a call that day from the Colombian Foreign Office asking for a visa for Rojas and his family to enter the United States. Pigott said he had sent a telegram to the Department in which he had indicated his lack of support for the request. Pigott told Rubottom that "there is complete feeling of odium against the man [Rojas] all over the country and if we were to grant him a visa the press there would have a lot to say about it and the people would certainly not understand it." Rubottom replied that "he was inclined to feel the same way as Mr. Pigott about the matter but he felt we should give the matter some consideration and would let him know later." (*Ibid.*, Rubottom Files: Lot 59 D 573, Colombia)

The five-man military Junta in Bogotá has set up a 13-man Cabinet composed of five Conservatives, five Liberals and three Army Generals. The Minister of Government (senior Cabinet officer), José Maria Villarreal, a Conservative and follower of former President Gomez, has a record of cruelty and partisanship as a provisional Governor. Foreign Minister Carlos Sanz de Santamaria, former Ambassador in Washington, is a Liberal but has shown recent pro-Rojas leanings. A gratifying appointment is that of Antonio Alvarez Restrepo, a Conservative and a believer in sound banking and business principles, as Minister of Finance. The Military still hold the posts of War, Justice, and Communications, the first two going to very able men—General Saiz, pro-Conservative, and General Duarte, pro-Liberal—while the third is the only holdover from the former Cabinet.[3]

The equal representation of both parties in the Cabinet and the caliber of the men selected, generally speaking, suggest that the Junta is endeavoring to carry out its promise to set up a representative government. Reports from Bogotá seem to indicate that the Government is well received by the people. It remains to be seen how long the leading figures can put aside party politics and collaborate in the interest of national unity.

The Colombian Ambassador has queried us with regard to recognition, and this question is now under study in ARA.[4]

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[3] A memorandum to Rubottom from Sanders, dated May 13, contained information on the backgrounds of the new Colombian cabinet members. (*Ibid.*, Central Files, 721.13/5–1357)

[4] In a memorandum to the Secretary of State, dated May 14, Rubottom presented a discussion of the question of recognition of the new Colombian Government and recommended that the Secretary send a memorandum to the President recommending recognition of the military junta as the provisional government of Colombia. (*Ibid.*, 721.02/5–1457)

465. Memorandum From the Secretary of State to the President[1]

Washington, May 15, 1957.

SUBJECT

Recognition of the new Government of Colombia

Colombia has undergone a revolutionary change of government. On May 10 General Rojas Pinilla resigned as President and designated a five-man military junta to govern. The change resulted from general dissatisfaction with the dictatorial nature of the Rojas government. The new regime, welcomed by the people, has given evidence of being firmly in control and has expressed its intention of complying with all its international obligations. Furthermore, it has announced that it will form a government of national unity permitting free elections for President for the four-year term which, according to the Constitution, begins August 7, 1958.

I recommend that you authorize me to take the necessary steps to extend prompt recognition to the Military Junta as the provisional Government of Colombia.[2]

JFD

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[1] Source: Department of State, Central Files, 721.02/5–1757. Confidential.

[2] A handwritten note by Eisenhower on the source text reads: "17 May '57 approved DE." In a letter dated May 17, Robert Murphy, writing for the Secretary of State, informed Ambassador Urrutia that the U.S. Government recognized the junta as the provisional government of Colombia. (*Ibid.*, 721.02/5–1157)

466. Memorandum of a Conversation, Department of State, Washington, June 13, 1957[1]

SUBJECT

Eximbank position with regard to Colombia's financial problems

PARTICIPANTS

Ambassador John M. Cabot[2]
Mr. Vance Brand, Mr. John C. Cady—Export-Import Bank
REA—Mr. Turkel
OSA—Mr. Gerberich

After a discussion of the situation in Colombia and the events leading up to the present financial chaos, Mr. Brand stated that in his opinion the Export-Import Bank would not consider giving Colombia a balance of payments or a budgetary loan. He said the Bank does not contemplate furnishing aid to meet a deficit in the Colombian budget.

On the other hand, he said, the Bank is prepared to consider a request for credits to enable Colombia to purchase essential imports. He did not use the expression "Exporters' Credits", and may have been referring to the establishment of a line of credit similar to that granted some time ago in the case of Brazil.

He said the Bank is at present waiting for three things: (1) a joint statement of the IMF and the private banks on stabilization; (2) a report of the Colombian Government on arrearages; (3) the arrival of Martin del Corral, Manager of the Bank of Bogotá, who has been sent here as a special agent to discuss liquidation of the commercial debt and obtaining financial assistance in the United States.

Mr. Brand said the Export-Import Bank is still interested in Colombian plans regarding the Paz de Rio steel plant. He personally takes a very dim view of the enterprise. Its cost will probably go to $300 million to $350 million. It lost $50 million year before last and according to the Colombians lost $5 million last year. The coal is low-grade; the iron ore has too much phosphorus, which causes the steel to splinter; the plant was not wisely designed in many respects (including the construction of a pit-type blast furnace, a fatal error); the administration has been terrible; and the markets are uncertain.

Mr. Brand said the Eximbank is still interested in the application for a loan for the fertilizer plant, which has been inactive for some time, but which may be revived.

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[1] Source: Department of State, Central Files, 821.10/6–1357. Confidential.

[2] John M. Cabot was appointed Ambassador to Colombia on June 3, and presented his credentials on July 12.

467. Despatch From the Ambassador in Colombia (Cabot) to the Department of State[1]

No. 38 *Bogotá, July 9, 1957.*

POLITICAL SUMMARY AND ASSESSMENT

Background: The Rojas Regime and Its Fall

Lt. Gen. Gustavo Rojas Pinilla came to power as President of Colombia by bloodless coup d'état of June 13, 1953, sending into exile right-wing Conservative President Laureano Gomez. His accession followed a period of five years of civil violence and guerrilla warfare resulting from intense partisan strife between the two historical parties, Liberal and Conservative, with Liberal guerrillas pitted against Conservative government forces and with the Government becoming increasingly dictatorial and high-handed. Perhaps 100,000 persons had been killed during this period. Promising (1) peace through amnesty and rehabilitation for the guerrillas and (2) restoration of Constitutional government, Rojas was hailed with genuine popular enthusiasm as Colombia's savior.

While he was largely successful in fulfilling his promise to restore peace, Rojas and his Conservative Government of the Armed Forces gradually moved in the opposite direction as far as his second promise was concerned, becoming increasingly authoritarian: (1) The state of siege, in effect since 1949, was continued; (2) the Congress and popular elections were suspended; (3) the National Constituent Assembly (ANAC) (which had confirmed him as President until the end of Gomez' term in 1954 and which then "reelected" him until August 7, 1958) was through a series of maneuvers packed with Rojas supporters; (4) the Supreme Court and lower courts were likewise packed; (5) party activity was progressively curtailed to the vanishing point; (6) the press was heavily censored and some papers closed; (7) military were placed in a large number of normally civilian positions; (8) the use of strong-arm tactics on certain occasions shocked the public; (9) an octopus social action organization (SENDAS) was created for largely political purposes; (10) this and other efforts were made to appeal to the masses against the political "oligarchs", and contrived mass demonstrations were held to "prove" support for the government; (11) various attempts were made to form totalitarian, Peronista-style mass organizations, especially the National Action Movement (MAN), the Third Force, and the New Order, although each successively failed. Rojas justified his restrictive measures and his non-return to Constitutional government on the grounds of the situation of violence (he was never able to stamp out violence completely and some wondered whether he wanted to) and the danger of renewed partisan strife; he maintained that the Armed Forces should remain in power until these two factors were eliminated. On top of these authoritarian trends was a situation of widespread corruption in which Rojas, his own family and members of the Armed Forces and Government were heavily involved, to the discredit of the regime.

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[1] Source: Department of State, Central Files, 721.00/7–1557. Confidential. In a cover sheet dated July 15, Richard A. Poole, Second Secretary of the Embassy, stated that this paper was prepared by the Embassy staff for Ambassador Cabot on his arrival.

Although Rojas originally enjoyed the support or acquiescence of practically all groups except the die-hard supporters of Laureano Gomez, the above factors combined with the worsening economic situation in 1956–57 gradually alienated most significant elements of the main political groups, as well as the public in general. Liberals relatively early joined the Laureanista Conservatives in outright opposition, and eventually the Ospinista Conservatives (originally the Rojas Government's main political support) joined the Opposition. Only the opportunist Gobiernista Conservatives and splinter "Independent" Liberals remained pro-Rojas. Other elements, such as the powerful Catholic Church and industrial, commercial and intellectual groups also began to show their discontent with the regime. The hitherto bitter rivalry between the parties began to melt in the face of common opposition when Liberal Chief Alberto Lleras and Laureano Gomez signed the Benidorm (Spain) Pact on July 24, 1956, agreeing to bi-partisan opposition with a view to reestablishing constitutional processes and a series of coalition "parity" governments.

Rojas weathered one storm in August and September 1956 by jettisoning the Third Force, reshuffling his Cabinet, calling the ANAC into session and easing up on press controls, but opposition crystalized when on January 26, 1957 he had his Minister of War, General Gabriel París, announce that the Armed Forces insisted on his remaining in office for the 1958–62 term. This announcement was followed by a contrived reelection "campaign" (the Opposition being muzzled) and a series of maneuvers which resulted in the complete packing of the ANAC with Rojas supporters in order that that body might "reelect" him, over a year in advance of the term. With this impetus, Liberals, Ospinista and Independent Conservatives and some Laureanista Conservatives signed the March 20 pact, which paralleled the Benidorm Pact, and on April 8 launched the bi-partisan presidential "candidacy" of Guillermo Leon Valencia, a Conservative. While it seemed that most opposition elements originally were prepared to tolerate Rojas' continuation in power until the end of the 1954–58 term, now, with the rigged reelection of Rojas a certainty, Opposition leaders began to plan a movement of civil disobedience for mid-year or thereafter with a view to bringing down the Rojas regime.

Civil disobedience was precipitated prematurely and spontaneously when Guillermo Leon Valencia was placed under house arrest in Cali on May 1. During the ensuing "Jornadas de Mayo", student protest demonstrations throughout the country were followed by quickly improvised shut-downs of universities, newspapers, shops, factories, businesses and banks, accompanied by Church statements indicating sympathy for the "movement" and criticizing police and Army excesses (including the defilement of churches) in attempting to quell the demonstrators. (Over a hundred demonstrators were killed.) Rojas showed no indications of backing down, even engineering his "reelection" by the ANAC on May 8 at the height of the Jornadas de Mayo. Under this situation, with the Opposition groups led by Lleras and Valencia committed and with Rojas seemingly intransigent, the possibilities for large-scale bloodshed were very real. However, under pressure from his own military leaders, who, while probably mostly still Rojista, were more able to face the facts, Rojas on May 10 turned over to a Military Junta and departed with his family for Spain. Thus the civilian opposition, forming an unusual revolutionary movement of traditional political leaders, industrialists, merchants, bankers, intellectuals, students and tacitly the Church, succeeded without the use of arms in overthrowing the Rojas military dictatorship.

The Rojas regime can be characterized as an opportunity lost. Rojas' personal traits—a Messiah complex combined with a personal lust for power and wealth and an intolerance of opposition and criticism—were probably as much responsible for this as anything.

The Junta and Its Promise

The five-man Military Junta of Government consists of Major General Gabriel París (former Minister of War) as President of the Junta, Major General Deogracias Fonseca (former Commander of the National Police), Rear Admiral Rubén Piedrahita (former Minister of Public Works), Brigadier General Rafael Navas Pardo (former Commander of the Army), and Brigadier General Luis Ordoñez (former Chief of the Intelligence Service), all of whom had served the Rojas regime. They announced from the beginning, however, that theirs was an interim regime pending a return to Constitutional government on August 7, 1958, through elections and other measures taken prior thereto. Freedom of the press, normal political activity, honest administration, and economic and social remedies were also promised. A largely civilian, bi-partisan Cabinet was appointed which met the general approval of the Parties. The ANAC was suspended. Later, the Junta announced the creation of a top-level "Parity Commission on Institutional Readjustment" (just convened) to study Constitutional reform and steps necessary to a return to Constitutional government—consisting of ex-Presidents, top leaders of both Parties, two Cabinet members and an Armed Forces representative. A two-man, bi-partisan National Commission on Criminal Investigation was also formed to investigate corruption and malpractices. A press statute is under study. The Junta seemed to get off to a good start and the political leaders, including Valencia, Lleras, and Alvaro Gomez Hurtado for the Laureanistas, appealed to the people on May 10 to support it.

Many would have liked to see the "movement" pushed beyond May 10 to the point of overthrowing the Armed Forces and establishing civilian government immediately, but the leaders realized this was impossible, as it would have met the resistance of the Armed Forces and probably would have resulted in large-scale bloodshed. Some sort of interim government seemed essential.

Despite the outward appeals for support of the Junta, misgivings have developed in various quarters: (1) There is some fear that certain members of the Junta may be looking for excuses to continue military government; (2) there is disappointment that there has still been no firm statement on an election date or dates; (3) there are misgivings over the reasons for the Junta's failure to dissolve the discredited ANAC outright; (4) some impatience has been expressed at the fact that no steps have been taken to re-form the Rojas-packed Supreme Court, Council of State and the offices of the Procurator (Attorney) General and Comptroller General; (5) there is some concern that recent warnings to the press may be indications of the possible re-imposition of censorship; (6) there is some belief that study commissions are of little value and may be used as delaying factors; (7) there is considerable criticism of the appointment of military governors where civilians are demanded and the "rewarding" of persons close to Rojas with diplomatic posts; (8) there is some fear that the Junta may be willing to listen to those dissident elements which are now trying to organize in opposition to the bi-partisan coalition. Not everyone entertains all these doubts, but they do exist to a greater or lesser extent in various sectors.

The Frente Nacional

The Frente Nacional (sometimes Frente Civil), as the bi-partisan movement headed by Guillermo Leon Valencia and Alberto Lleras has come to be called, is generally recognized as the principal influence toward a return to Constitutional government and as the organization which will assume power, following elections, in 1958.

It is believed to have the support of the great majority of the people. It is supported by practically all Liberals, by what are now known as "Valencista" Conservatives (who include the Ospinistas) and some Laureanista Conservatives, with the actual Laureanista organization still not fully committed despite a recent agreement with the Valencistas to reunite the Party.

The program of the Frente Nacional, as it is beginning to evolve, consists of the following:

(1) Past errors and bitter rivalries between the Parties, which led to partisan strife, violence and guerrilla warfare, and the eventual takeover by the Rojas dictatorship, must be avoided. The idea of bipartisanship must be carried to the lowest levels, where partisan rivalry has traditionally led to violence.

(2) There must be continued bipartisan cooperation in the Frente Nacional to assure the establishment of Constitutional government under the "Second Republic" in 1958, and there should be continued support for the principles of the Benidorm and March 20 Pacts both for this purpose and with the further objective of establishing a series of bipartisan "parity" Governments of National Union, in which both parties will participate equally under alternating Conservative and Liberal Presidents.

(3) The bi-partisan presidential candidate for 1958–62 is Guillermo Leon Valencia.

(4) Elections should be held as soon as they can be organized (perhaps December 1957) for a president (Valencia) who will assume office on August 7, 1958, and for a Congress, departmental assemblies and municipal councils to be convened immediately after their elections. In order to avoid the traditional bitter partisan rivalry and strife incident to elections, the Party leaders have agreed not only to run a single candidate but also to inaugurate a system of "parity lists" for Congressional seats. Under this system there will be an equal number of senators and representatives elected from each department and there will thus be no competition between Liberals and Conservatives for seats, although there may be competition within each Party for seats allotted to it.

(5) The discredited, Rojista ANAC should be dissolved outright as an illegal body.

(6) A new Supreme Court should be appointed and the Constitutional Review function should be returned to the Court as a whole rather than to a chamber of the Court named by the President. Likewise a new Council of State, Procurator (Attorney) General and Comptroller General should be appointed. These changes should probably await the convening of Congress, on which they Constitutionally depend for appointment or ratification.

(7) The Parity Commission should play an important role in bringing about a return to Constitutional government.

(8) The Investigating Commission should be permitted to operate with adequate powers and freedom to investigate malpractices and corruption in all quarters, and there should be no impunity in this regard.

The leaders of the Frente Nacional have slightly different views of the Junta and its good faith, although all express confidence in the Junta in their public statements. Privately, Valencia has told us that he has little confidence in the Junta's intrinsic good faith, believing that the Junta will fulfill its promises only if the Frente Nacional holds together and remains strong, but that the Junta will go back on these promises and try to retain power for the military if the Frente Nacional shows signs of weakness and dissent. Lleras, on the other hand, while agreeing that the members of the Junta are not all of one mind, that one or two may be balking and that all seem to be reluctant to take positive action, does not believe that the Junta as a body is attempting to retain power for the military or planning to go back on its promises, since, in his view, the Junta realizes that this is out of the question under existing circumstances. Both agree, however, that it is essential for the Frente Nacional to remain strong and united and to keep a constant pressure on the Junta to take positive measures toward as rapid a return to Constitutional government as possible. Their strength, they believe, lies in their popular support (increasing daily through a joint, nation-wide tour) and the implied threat of the same formula used during the Jornadas de Mayo to overthrow the Rojas regime.

Problems and Danger Signs

While the outlook is hopeful that the Junta will in fact fulfill its promises and that the Frente Nacional through continued bipartisanship will be able to achieve a return to Constitutional government, there are a number of very real problems and some growing danger signs:

(1) It is doubtless difficult for many military leaders to reconcile themselves to a relinquishment of power to civilian government, to relegate themselves to their former role and to run the risk of losing newly-won prerogatives. Many view with little relish the prospect of sweeping investigations into corruption and malpractices, and resent free criticism in the press.

(2) There is no doubt that many military are still essentially Rojista, and there are reports that some are even plotting the return of Rojas, probably in conjunction with civilian dissident elements. Rojas has maintained his name in the political picture by his recent statements asserting the legitimacy of the ANAC as the only body with a legal base, maintaining that May 10 was not a victory over the "Binomio" (partnership) of the People and Armed Forces, and warning the Junta to preserve the prerogatives of the Armed Forces.

(3) Laureanista reluctance to join the Frente Nacional (they have abstained, for instance, from the Parity Commission) is a disuniting factor. The Laureanistas still seem unable to forgive the Ospinistas for originally supporting the Rojas coup.

(4) Bipartisanship, difficult enough to weld against a common adversary, will be harder to maintain once "normality" is assured, although to date the idea seems as strong as ever.

(5) There are reports that ex-Minister of Government Lucio Pabon Nuñez (the "eminence grise" of the Rojas regime and a staunch believer in the corporate state) and Gilberto Alzate Avendaño (right-wing Conservative authoritarian who tried to make a deal with Rojas just before his fall) are, jointly or separately, attempting to organize disgruntled Rojista Conservatives, including government office holders, and perhaps the splinter "Independent" Liberals and even some Laureanistas into a movement to oppose the Frente Nacional, and that this may well have some military support. While Valencia tells us he would be happy to have an Opposition candidate, Lleras is afraid that such a dissident movement might provide the pretext for postponing the elections.

(6) Violence continues in three principal forms: (a) Pajaros (Conservative gunmen hired under the Rojas regime) continue to cause disorders both for revenge and political motives; (b) organized guerrillas, mostly Liberals, while largely quiescent, are reluctant to turn in their arms until political normality is reestablished; (c) outright bandits continue to operate in certain areas. (Party leaders and the civilian members of the Cabinet are attempting to achieve a cessation of violence, and have held conversations with guerrilla leaders).

(7) The rising cost of living and food shortages may cause exploitable discontent.

Despite these complicating factors, which can be by no means discounted, there still seems to be reasonable hope that the Frente Nacional with its considerable momentum and popular support, combined with a sympathetic Cabinet and a Junta which probably feels itself unable to buck the inevitable, will be able to achieve the restoration of Constitutional civilian government in 1958.

468. Memorandum of a Conversation, Department of State, Washington, October 7, 1957[1]

SUBJECT

PL 480 Program and Relief Supplies for Colombia[2]

PARTICIPANTS

Ambassador John Moors Cabot
CSD: Howard M. Gabbert, Lucian L. Rocke, Jr.
OSA: Andrew B. Wardlaw, Albert H. Gerberich
ICA: Scudder Darrow
Agriculture: Saul Katz[3]

The Ambassador said he is more than ever convinced of the imperative need of supplying Colombia with vitally needed food supplies since he has been following the descent of coffee prices in the New York market over the past two or three weeks. Less dollars from coffee means less dollars to pay Colombia's debts, lower wages, less purchasing power for the masses, and more unemployment.[4]

He said he had spoken last Wednesday with Colombian Foreign Minister Sanz de Santamaria and with representatives of CARE in New York City. The Foreign Minister told him the Colombian Minister of Agriculture is reluctant to request a Title II or Title III program, fearing that it would jeopardize Colombia's chances under Title I. He also wants to guard against bringing into Colombia and giving away food that would compete with the local product. The Ambassador pointed out to him that any Title III program would be a relatively small affair, and all of it would go only to the needy. He said he believes the Foreign Minister would now be glad to receive Title III help if it doesn't cut across Title I.

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[1] Source: Department of State, Central Files, 821.49/10–757. Confidential. Drafted by Gerberich.

[2] Reference is to the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480), approved July 10, 1954; for text, see 68 Stat. 454.

[3] Saul M. Katz, a Program Coordinator in the Foreign Trade Programs Division, Department of Agriculture.

[4] A memorandum of conversation, dated September 13, records that Cabot presented a report on food shortages in Colombia to representatives of various agencies including the Departments of State and Agriculture, and the International Cooperation Administration. According to the memorandum, the Ambassador stated that there had been riots and an attack on a warehouse in Barranquilla state, and he feared that a continuation of the troubles might lead to dissolution of the government and a return to military dictatorship. The memorandum further records that Cabot stated "he did want to urge that we send the Colombians the foodstuffs they ask" under the provisions of P.L. 480. (Department of State, ARA/REA Files: Lot 63 D 87, P.L. 480 Colombia)

The Foreign Minister also urged that Colombia be treated well so far as cotton is concerned, saying he is afraid the textile mills will have to shut down otherwise and throw people out of work.

Mr. Katz said he could tell the Ambassador confidentially that the commodity people in Agriculture are working on a proposal that would make available to the Colombians a certain amount of cotton. He would not say how much, but said he thought he would know definitely shortly.

Mr. Katz also went into the question of scheduling the most urgent priorities first. He said Colombia is not in the first priority, but is near the top of the second priority. It is therefore one of the countries on which action can be expected to be taken in a reasonably short time.

The Ambassador said he had learned that Mrs. Lowry, head of CARE in Colombia, has been in New York and brought with her signed agreements with various Colombian departments (states) to increase the size of school lunches. On this subject Mr. Darrow and Mr. Katz remarked that they were sure that if these programs were recommended to it by ICA and Agriculture the Interagency Committee would give them its approval. Mr. Darrow said that the annual programs of UNICEF, CARE and CRS have already been approved by ICA, and it is hoped that the Interagency Staff will clear them within thirty days. If so, that will take care of everything up to the end of the present year. He said these agencies estimate they are reaching 5% of the Colombian population.

The Ambassador said he was interested in learning what further aid can be given. He said he would prefer to have any program administered under CARE and CRS, as they are doubtless from experience in these matters more efficient than the Colombians would be. These agencies have told him that if specific programs are proposed and ICA agrees to pay the freight to Colombia they are ready to proceed with them.

Mr. Darrow said this would depend on the ability of the Colombian Government to meet transportation expenses. The Colombians are at present paying ocean freight on these supplies. Some other countries are paying half the freight. In some cases the US is paying it all. He said he would like to know if there are circumstances which would make it difficult, or impossible, for Colombia to bear the freight costs.

The Ambassador said we have a serious situation in Colombia, which is having a hard time to pay its debts and balance its budget. He might possibly be able to convince the Colombians that they should pay the full ocean freight, but he could not promise this. The important point to him was that the relief program should not be put in jeopardy on that account. He said he realized we must anticipate some delay in implementing the Title I program. In view of the extraordinary circumstances he would like very much, if possible, to work out another program in Title III through CARE and CRS. He proposed, as soon as he returns to Bogotá, to call in the CARE and CRS representatives and tell them that, if the situation is the same as they reported to him when he left Bogotá last month, they should prepare reports setting forth their planned increases in their programs. He for his part, working in conjunction with the USOM Mission in Bogotá, will then recommend to the Department speedy favorable action on these proposals. If he finds that it is impossible for the Colombian Government to pay the freight charges, he will recommend strongly that Colombia be added to those countries for which freight in such cases is prepaid by us. In the meantime he urged that the Title I program be worked out up here as expeditiously as possible.

The Ambassador asked whether, provided a case is convincingly made out for the need for an increased program and for the desirability of our assuming the transportation costs, there might be any other major obstacle in the way. Mr. Darrow and Mr. Katz said they could think of none.

ECUADOR

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND ECUADOR[1]

469. Memorandum From the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Director of the Office of Military Assistance, International Security Affairs, Department of Defense (Wilson)[2]

Washington, May 2, 1955.

SUBJECT

Request Involving Purchase of Military Equipment under the Mutual Security Act of 1954[3]

Enclosed is a copy of a communication dated April 1, 1955,[4] from the Chief of MAAG,[5] in Ecuador, which indicates that the Ecuadoran Minister of Defense[6] desires to purchase thirty-two aircraft, of various types, provided that the equipment can be purchased on credit.[7] This information confirms recent reports submitted by our Ambassador in Quito[8] that Ecuador desires to buy aircraft on credit terms.

The Department of State approves, from an economic and political viewpoint, the sale of this equipment, for cash, under the legislative authority of Section 106 of the Mutual Security Act of 1954. This approval is subject to any patent or proprietary rights and security considerations that apply to the specified material or services, as may be subsequently determined by the Department of Defense.

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[1] Continued from *Foreign Relations,* 1952–1954, vol. IV, pp. 966 ff.

[2] Source: Department of State, Central Files, 722.5–MSP/5-255. Secret. Drafted by George O. Spencer.

[3] For text of P.L. 665, see 68 Stat. 832.

[4] Not printed.

[5] Col. Daniel A. Ranney, USA, Chief of MAAG in Ecuador.

[6] Pedro Menendez Gilbert.

[7] In telegram 140 to Quito, March 29, 1955, the Department of State requested that the Embassy "advise Ecuador submit list specific items desired so Defense may ascertain total price and determine whether credit can be financed." The telegram further stated: "Since decision depends ability resolve financing and other problems Ecuadorans should be given understand U.S. willingness receive list for consideration by no means constitutes U.S. approval." (Department of State, Central Files, 722.5–MSP/3–2255)

[8] Sheldon T. Mills.

As soon as the Department of Defense determines the total price of the equipment requested, the Department of State will indicate its views with regard to the desirability of selling the equipment to Ecuador for credit.

Frederick E. Nolting, Jr.[9]

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[9] Printed from a copy which bears this typed signature.

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470. Letter From the Director of the Office of International Financial and Development Affairs (Corbett) to the Secretary of the National Advisory Council on International Monetary and Financial Problems, Department of the Treasury (Glendinning)[1]

Washington, July 2, 1955.

DEAR MR. GLENDINNING: Our Ambassador to Ecuador has advised us that the Ecuadoran Defense Minister has indicated the desire of the Ecuadoran Government to purchase United States military equipment on deferred payment terms. The Ecuadoran Defense Minister has stated that Ecuador is financially able to purchase such equipment on terms providing for maximum annual payments of $1 million. Annual payments in that amount would have the effect of limiting to $3 million the total amount of credit which could be extended to Ecuador, inasmuch as Section 106(b) of the Mutual Security Act of 1954 requires repayment in full within a three year period.

The State Department desires to advise our Ambassador that the extension of $3 million of credit for repayment over a three year period, as authorized by Section 106(b) of the Mutual Security Act of 1954, has been approved, in principle. It is desired to authorize him to suggest to the Ecuadoran Defense Minister that the Ecuadoran Government submit a formal request for the specific items of equipment desired for purchase on credit terms but to make clear to the Defense Minister that the total amount of credit possible for the United States to extend would be a maximum of $3 million.

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[1] Source: Department of State, Central Files, 722.56/7–255. Confidential. Drafted by Spencer and forwarded to Corbett under cover of a memorandum dated June 22. (*Ibid.*, 722.56/6–2255)

The State Department plans to follow the above course of action unless notified of objections by members of the Staff or Council before July 6.[2]

Sincerely yours,

JCC

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[2] No record of a response from the National Advisory Council has been found in Department of State files.

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471. Memorandum of a Conversation, Department of State, Washington, August 31, 1955[1]

SUBJECT

Visit of Ambassador Chiriboga

PARTICIPANTS

Ambassador Chiriboga, Embassy of Ecuador
Mr. Holland—ARA
Mr. Gerberich—OSA
Mr. Dustmann—OSA

Ambassador Chiriboga began by asking Mr. Holland if he had any information concerning any developments on the Ecuador-Peru border problem. Mr. Holland replied that he had been awaiting the Ambassador's visit to inform him that the US has just asked the Foreign Minister of Brazil to call an early meeting of the Guarantors[2] to consider the situation, as we are deeply concerned over the many reports of the tenseness between Ecuador and Peru on this subject.[3]

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[1] Source: Department of State, Central Files, 622.233/8–3155. Confidential. Drafted by Walter H. Dustmann, Jr. Initialed by Holland, indicating his approval.

[2] A Protocol of Peace, Friendship, and Boundaries between Ecuador and Peru (known as the "Rio Protocol") was signed at Rio de Janeiro on January 29, 1942, and entered into force on February 26, 1942. The Guarantors of the protocol were Argentina, Brazil, Chile, and the United States. For text of the protocol, see 56 Stat. 1818.

[3] A memorandum of a telephone conversation, dated August 29, stated that Ambassador Dunn in Brazil informed Holland that Brazilian Foreign Minister Raul Fernandes planned to call a meeting of the Guarantors of the Rio Protocol. The Ambassador requested that he be sent the text of a note with U.S. views on the subject which he could present to Fernandes. (Department of State, Central Files, 622.23/8–2955) Telegram 259 to Rio de Janeiro, August 30, contained the text of a note which stated in part: "The United States believes that the unsettled border

Mr. Holland explained that the US has the well-being of both countries at heart as well as the stability and peace of the hemisphere. He said we hope that the Guarantors will meet to consider what to do, possibly including a look at the armaments of both countries, but that we have no special ideas on the subject, and would welcome any that Ambassador Chiriboga might have. He added that our Ambassadors in Quito and Lima[4] were informing the respective Foreign Ministers[5] of the action being taken at Rio. He made it clear that Brazil has not yet agreed to call the meeting but that we hope for early and favorable action.

Ambassador Chiriboga replied that he had only two suggestions to make at this time: 1) that the Guarantors could use their good offices to effect an exchange of ambassadors between Ecuador and Peru and 2) that Ecuador and Peru should agree not to grant any concessions in the disputed areas to foreign interests. He added that he might have other suggestions to give us after consultation with his Government.

The Ambassador indicated concern over various reports he said his Government has received of US armaments being sold to Peru and he then quoted from the Department of State *Bulletin* of July 25, 1955 to the effect that the US and Peru signed on April 30 an agreement with respect to the disposition of equipment under the military assistance agreement of February 22, 1952.[6] He inquired as to what was contained in the agreement. Mr. Holland replied that he was not familiar with the details of the agreement but would look into it and advise the Ambassador.

Ambassador Chiriboga said his Government is anxious to obtain an Eximbank loan of $900,000 for terminal buildings at Guayaquil and Quito, stressing the fact that the present Government has only one year to go and wishes to start this project before its term expires. He said the Eximbank is apparently ready to grant the loan but is seeking to impose certain difficult conditions. His chief reason however in mentioning it was that he hoped Mr. Holland would be able to expedite its final approval by the Bank. Mr. Holland said he knew about the loan and the red tape involved and that, although the Eximbank was an independent agency and did not like the State

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differences between the two countries at the same time constitute a major contributing factor to the existing tension. It is hopeful, therefore, that the two Governments may be prevailed upon to complete the demarcation of their common frontier in the early future." The note stated further that the United States suggested that Brazil, as host to the representatives of the Guarantor countries, convoke a meeting to consider the situation. (*Ibid.*, 622.23/8–3055)

[4] Ellis O. Briggs was Ambassador to Peru.

[5] David Aguilar Cornejo, Peruvian Foreign Minister.

[6] For text, see 3 UST (pt. 2) 2890.

Department to be looking over its shoulder, he would be happy to express our interest in the loan to the Bank.

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472. Memorandum of a Telephone Conversation Between the Assistant Secretary of Defense (Gray) and the Assistant Secretary of State for Inter-American Affairs (Holland), Washington, September 8, 1955[1]

SUBJECT

Ecuador's Fear of Peruvian Invasion

Mr. Holland said that he was calling about the problem that has come up today in Latin America—border dispute between Peru and Ecuador. Mr. Gray said that he knew it existed but did not have all the facts.

Mr. Holland said that we, Brazilians, Argentines and Chileans are Guarantors of the treaty settling the border dispute. (He explained the job of the Guarantors.) He said that now Ecuador says that Peru is about to attack her.[2] Peru denies this.[3] The Guarantors are meeting in Rio now.[4] We are urging that the Guarantors should name military personnel as inspectors to go to the border area and determine whether the accusations are true or not. Since tomorrow we will be called upon to name a U.S. individual, Mr. Holland said he would be grateful if they would consider who the man will be. Mr. Gray said that it would be Col. Hanford[5] of his office in Washington. Mr. Gray said they would also want to name a representative from CINCARIB since they are in charge of the area and they would want to message them for their recommendation. Mr. Holland said that would be agreeable to us. Mr. Holland asked if Col. Hanford spoke Spanish; also whether he knew the area. Mr. Gray said he was sure his staff would not have selected him unless he were well qualified, but that he would be glad to check and let Mr. Holland know. Mr. Holland said his feeling was that it was enormously important that the man speak Spanish, know the background of this particular fight and something about the area.

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[1] Source: Department of State, Central Files, 622.23/9–855. Confidential. Drafted by Holland's personal secretary, Mabel Karydakis. Initialed by Holland, indicating his approval.

[2] On September 8, Ambassador Chiriboga called Cecil B. Lyon to inform him that he had delivered a speech at a meeting of the Council of the Organization of American States that day in which he stated that Ecuador was expecting an invasion by Peru. According to a memorandum of the conversation, Chiriboga stated to Lyon that "the Ecuadorans were surrounded by thousands of Peruvian troops and they were expecting Quito to be taken by Peruvian forces." (*Ibid.*, 622.233/9–855) For text of Chiriboga's statement, which he presented as a note to the Council of the OAS on September 8, see "Situation between Ecuador and Peru," *Annals of the Organization of American States*, Vol. VII, 1955, p. 290.

[3] A memorandum of a telephone conversation, September 8, states that Gonzalo Pizarro, Chargé d'Affaires of the Peruvian Embassy, called Lyon at 5:15 p.m. to inform him that President Manuel A. Odría and Foreign Minister Aguilar stated to Pizarro that "there were no concentrations of Peruvian troops, that the Peruvian Naval ships were in Callao, and that Peru had no intention of attacking Ecuador but that this was all a scandal created by Ecuador. The Chargé said his Government had authorized him to say this at the meeting of the OAS." (Department of State, Central Files, 622.233/9–855)

[4] A memorandum of a telephone conversation, September 8, stated that William C. Trimble, Counselor of Embassy in Brazil, informed Holland at 5:30 p.m. that he would recommend at the meeting of the Guarantors of the Rio Protocol that they appoint representatives to investigate the situation between Ecuador and Peru. (*Ibid.*)

He said there was an alternative and that was the desirability of naming on an immediate basis, not necessarily for the entire inspection process, people on the ground who in a matter of two or three hours, if that seems desirable, could be at the spot. He said that folks from here could not do that. Mr. Holland said we would like to feel that, if the situation makes it desirable and if pressure is exerted to get someone there right away, one of their people at Quito or Lima could be picked to go right away. Mr. Gray agreed that this could be done.

Mr. Holland said that we should have a decision as to what would be done in the morning and would be in touch with them.[6]

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[5] Colonel T.B. Hanford, Director of Western Hemisphere Affairs, Office of International Security Affairs, Department of Defense.

[6] A memorandum of a telephone conversation, September 9, stated that Holland informed Gray that the Guarantors decided to appoint a commission composed of the military attachés of the four Guarantor nations stationed in Peru and Ecuador. (Department of State, Central Files, 622.233/9–955) In telegram 310 to Rio de Janeiro, September 10, Acting Secretary Hoover instructed the Embassy to "use best efforts induce Guarantors adopt and announce general policy of keeping OAS informed of progress of their work. US eager to demonstrate Inter-American System which includes OAS and Guarantors working successfully and in close coordination." This telegram, drafted by John C. Dreier and approved by Holland, was repeated to the Embassies in Argentina, Chile, Ecuador, and Peru. (*Ibid.*, 622.233/9–1055)

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473. Editorial Note

A commission of military attachés of Argentina, Brazil, Chile, and the United States stationed in Lima and Quito reported to the

Organization of American States on September 13, that it had found no evidence of Peruvian troop concentrations on the frontier with Ecuador. An undated summary of the military commission's report of September 25, prepared in the Bureau of Inter-American Affairs, states in part:

> "Although the innermost intentions of individual officials can never be determined with certainty, there appeared to be no danger of imminent war between the two countries. The enlistment system, the tranquility of the civil population, the location of the Peruvian Navy in port, and the disposition and status of the Air Forces of both countries indicated no belligerent intention. The commission comments that Ecuador over-estimated the number of Peruvian effectives in the frontier zone and it expresses the view that the speed with which the commission arrived on the frontier and made aerial reconnaissances of the frontier probably did not give time to either country to effect withdrawal of troops. The commission mentions that recent reorganization of the armed forces of both countries carried out at the suggestion of the U.S. Military Missions could be one of the reasons for arousing suspicion when combined with the recent acquisition of war matériel obtained by both Peru and Ecuador." (Department of State, Central Files, 622.233/9–2555)

Copies of this summary were sent to the Office of South American Affairs, the Office of Regional American Affairs, the Assistant Legal Adviser for Inter-American Affairs, the Central Intelligence Agency, and the Embassies in Argentina, Brazil, Chile, Ecuador, and Peru. For additional information on the subject, see "Situation between Ecuador and Peru," *Annals of the Organization of American States,* Volume VII, 1955, page 290.

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474. Editorial Note

As part of a visit to five South American countries, Henry Holland and Samuel C. Waugh and a group of United States officials visited Ecuador November 20–22. In despatch 184 from Quito, December 1, the Embassy reported that "the visit resulted in a much better understanding by Ecuadorans of the viewpoint of the United States in its efforts to assist Latin America." (Department of State, Central Files, 033.1120/12–155) Further documentation on Holland's trip to South America is *ibid.,* 110.15–HO.

475. Memorandum of a Conversation, Department of State, Washington, December 29, 1955[1]

SUBJECT

Ecuador—Contingent Lend-Lease Accounts[2]

PARTICIPANTS

Ambassador Chiriboga of Ecuador
Francis T. Murphy, OFD:LL
Byron E. Blankinship, ARA:OSA
Bainbridge C. Davis, ARA:OSA
Charles W. Kempter, OFD:LL

In response to Ambassador Chiriboga's request that, in order to aid him in his "efforts" to influence the settlement of Ecuador's contingent lend-lease debt to the United States, he be furnished with sufficient substantive evidence proving the existence of that debt, the Department had secured, with Treasury cooperation, photostatic copies of various letters, statements, etc. covering relevant fiscal operations. The Ambassador, who had expressed a desire to have such information as soon as possible, was immediately apprised of the receipt of the documents and invited to visit the Department to discuss them this afternoon. He was accompanied by Messrs. Blankinship and Davis of OSA.

The Ambassador opened the talks by saying that, during his recent visit to Quito, he had made earnest representations to his Government in an effort to have it come to settlement terms with the United States for the contingent lend-lease debt now amounting to about $540,000. [The actual figure is $546,549.82.][3] He said that, because it had been impossible to locate any records of the matter in the Government files, he was told that something in the way of tangible documentation would have to be received and considered before any decision could be reached. He, therefore, had ventured to request the Department to make the necessary data available to him.

The Ambassador was told that the Department had been very happy to help in furthering his settlement aspirations but had to remind him that, in addition to a routine series of progressive statements covering the contingent accounts sent over the years to the Ecuadoran authorities by the fiscal office of this Government, full retroactive statements had been previously requested by Ecuador on three separate occasions and, in each instance, the requested information had been assembled and sent to the Embassy of Ecuador by the Department.

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[1] Source: Department of State, Central Files, 822.10/12–2955. Confidential. Drafted by Kempter.

[2] Documentation on Ecuador's repayment of its lend-lease debt to the United States in 1951 and the liquidation of its surplus property account obligation in 1953 is printed in *Foreign Relations,* 1952–1954, volume IV, pp. 966 ff. Further information on the subject is in Department of State, Central Files 722.56. On June 10, Chiriboga was handed a note requesting payment of $546,549.82 owed as contingent lend-lease. (*Ibid.,* 722.56/6–1055)

[3] Brackets in the source text.

Mr. Murphy then went over the new set of items received from Treasury with the Ambassador, one by one. Admitting that he had seen copies of some of them in his files and casually noting others, the Ambassador remarked that there was no question either in the minds of his Government nor his own that Ecuador had contracted this obligation. They and he wanted to pay it but, in order to justify the budgeting of the funds to do so, it was imperative that they have documents to back up any action to have payment made.

The Ambassador was told that copies of the documents shown to him would be made available to him. He might wish to use them, along with the Department's very explicit note of last June 10, to acquaint his Government of the facts related to these accounts. The Ambassador said that he would do so at once and would recommend that a payment plan, over a four year period, as agreed with the Department in a previous meeting, be authorized. Mr. Kempter called his attention to the fact that his statement was not quite correct for the Department had not committed itself to any form of settlement and merely had told him that any reasonable proposal he might make for his Government would be given sympathetic consideration by the Department and other interested agencies such as Treasury.[4] Ambassador Chiriboga assented.

He proceeded, in his remarks, to say that he would recommend that the account be paid in four annual installments of 2 million sucres each as that would be a total of eight million sucres or about $540,000. He was asked if that meant the sucres thus budgeted would be used to make payment to the U.S. in dollars. Greatly surprised, he said "No,—the whole settlement would be in sucres."

It was explained that, during the last previous talks, it had been the Department's view that while a proposition to pay in four years, half in dollars and half in sucres, might encounter resistance, the Department would see what it could do to get it accepted. However, anything less reasonable would stand little if any chance of being accepted and would end only in further delaying a final settlement.

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[4] In telegram 125 to Quito, October 11, the Department informed the Embassy that "Chiriboga acknowledged debt and regretted unable in absence instructions reply Department's note of June 10 requesting settlement. In answer Chiriboga's plea payment in either dollars or sucres within year impossible, Department stated it would consider possibility obtaining agreement of interested US agencies to payment in dollar installments extending period not over four years, as an absolute maximum." (Department of State, Central Files, 722.56/10–1155)

The Ambassador launched into a lengthy dissertation concerning Ecuador's economic plight and emphasized that it would not only be quite impracticable for Ecuador to pay *any* dollars but that its balance of payments position would make it impossible to do so. He thought that in a few years it might be possible to find some dollars, after these critical years had been surmounted and, with that hope in mind, he then suggested that half of the amount due be paid in sucres in two annual payments in 1956 and 1957 and, thereafter—following a gap of a couple years—the other half of the account would be paid on an installment basis in dollars. The Ambassador said that Ecuador couldn't do better than that and he felt sure that the Department wasn't going to ruin Ecuador by asking for a full dollar payment. He was told that, in the Department's view, Ecuador could pay off the debt in dollars and without imperiling either its financial or economic status.

The Ambassador was assured that the Department has consistently taken a very sympathetic attitude toward this case and has been distressed by the variety of circumstances which continually had put off the settlement of this ten-year-old account for, regrettable as it may be, the fact must be known to Ecuador that the non-payment of those accounts which ante-date many other Government obligations can only have an unfavorable effect upon the credit standing of the Government of Ecuador in American and international financial and economic circles.

It was impressed upon the Ambassador by Mr. Murphy that, so that the action would be shown in the records of both Governments, the documents shown to him would be sent to him at the Embassy under cover of a formal note. In closing Mr. Murphy stressed the inadvisability of submitting any form of settlement proposal calling for payment entirely in sucres or for payment over a period of 4 to 5 years, pointing out that such proposals would stand no chance of being accepted by U.S. Government authorities.

The Ambassador's parting remark, made to Mr. Kempter, was "You are quite a lot of fighters". He was assured that we were friends, only trying to help his country help itself.

476. Memorandum of a Conversation, Department of State, Washington, January 19, 1956[1]

SUBJECT

Farewell Call of Ambassador Chiriboga

PARTICIPANTS

Ambassador Jose R. Chiriboga of Ecuador
The Secretary, Mr. Dulles
Deputy Assistant Secretary Cecil B. Lyon, ARA

The Ambassador called this afternoon at his request to say goodby to the Secretary and to express appreciation for all the attentions which he had received while in Washington.

The Secretary said that he had heard rumors that the Ambassador was returning to his country to be a candidate for the Presidency. Mr. Dulles said that every citizen of the United States aspired to the presidency and he assumed the same was true in Ecuador.

The Secretary also expressed his personal regret at the departure of the Ambassador. He noted that the Ambassador had been here during all the time he had been Secretary of State and that he had always felt he could rely on the Ambassador and Ecuador in matters of common Hemispheric interest. Those were the questions with which the Secretary had dealt in particular with the Ambassador.

The Ambassador said that he regretted leaving Washington, that he had had four very pleasant years here, but that the call of the people to duty was so strong he could not resist it, though it would be pleasanter and easier to continue in his present position.

The Ambassador then said that he must express to the Secretary his sincere appreciation for all the courtesies he had received while in this country. He mentioned the fact that Ecuador had received more help from the United States in the way of loans, technical assistance, etc. during his incumbency here than in all the years which preceded his coming. For this, his country was deeply grateful.

The Ambassador then said that he must ask the Secretary to do everything possible to assist Ecuador and Peru to find a settlement of their long-standing border dispute.

The Secretary said without knowing where the rights of the matter lay, he, too, felt that some solution must be found to this problem and that we, for our part, would do everything we could to assist the Guarantors to find a solution.

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[1] Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Official Use Only. Drafted by Lyon.

The Secretary said that as the Ambassador had raised the question of the border dispute, he would like to raise the question of the 200 mile zone. This is a matter which the Secretary said must be settled. We could find a solution; in fact, he himself had worked on a solution for the settlement of the fishing problem with Canada and Japan, a settlement which covered all of the Pacific ocean and the fishing rights of these three countries. However, one could not extend the territorial waters 200 miles.

The Ambassador said that this was a point in which he was not in agreement with his Government, and that he would do what he could to help find a solution. He remarked that there was not a great deal of time since in about two months there would be a meeting in the Dominican Republic of all the 21 American Republics on this matter.[2] He assured the Secretary that he could count on his assistance.

The Secretary then turned to the question of the extension of the Reciprocal Trade Agreement,[3] and said that he hoped there would be some solution to the problem of Panama hats. The Secretary remarked that no one seemed to wear hats any more. He noticed this when he travelled, particularly in England. The Ambassador expressed appreciation for the extension of the Agreement and said that Ecuador would do everything possible to find a solution to the problem, both to the diversification of industry and also the question of bleaching of Panama hats.

The Ambassador said that the relations between Ecuador and the United States, in his opinion, had never been stronger and that the Secretary could count on his support as a citizen, as a candidate for the presidency, and as the President, in all matters which affected the well-being of our two countries.

The Secretary wished the Ambassador good luck before saying goodby to him.

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[2] The Inter-American Specialized Conference of Conservation of Natural Resources: Continental Shelf and Marine Waters met at Ciudad Trujillo March 15–28, 1956.

[3] See the editorial note, *infra*.

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477. Editorial Note

On January 18, Ambassador Sheldon T. Mills presented a note to Foreign Minister Luis Antonio Peñaherrera, which stated that the

United States intended to terminate the 1938 Reciprocal Trade Agreement. For text of the trade agreement, see 53 Stat. 1951. Additional information on this decision is in Department of State, *Current Economic Developments,* Issue No. 459, January 18, 1955, page 12. (Department of State, *Current Economic Developments:* Lot 70 D 467) *Current Economic Developments* was a semimonthly classified periodical prepared by the Bureau of Economic Affairs in the Department of State for internal use as a background and policy guidance report for policy-level officers of the United States Government serving in the United States and abroad.

In response to a request from the Ecuadoran Government, the United States agreed to delay the termination of the trade agreement. The Ecuadorans stated that the termination would result in curtailment of the export of Panama hats, an important local product, and requested a 6-month period during which the hatmakers could be trained for other employment. (*Current Economic Developments,* Issue No. 471, July 5, 1955, page 20; *ibid.*) The Reciprocal Trade Agreement was terminated on July 16, 1956. For further information on this subject, see Department of State *Bulletin,* March 4, 1957, page 371. Additional documentation relating to termination of the trade agreement is in Department of State, Central File 411.2241.

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478. Editorial Note

On February 15, in a letter to Ambassador Mills, Minister of the Treasury José Gabriel Terán Verea submitted a proposal for settling the contingent lend-lease account, which was transmitted to the Department under cover of despatch 324, February 20. (Department of State, Central Files, 722.56/2–2056) In instruction 149 to Quito, May 4, the Department stated in part: "The Ecuadoran proposal that payments extend over eight years and that sucre payments covering one-half of the debt be paid first over a four-year period, with the other half to be paid in the final four years in dollars, is unacceptable." (*Ibid.*)

In a memorandum dated June 19, Thorsten V. Kalijarvi recommended that Under Secretary Hoover approve the completion of negotiations for a lend-lease settlement through payment by Ecuador of 10 semi-annual installments of $54,655 in United States dollars. Hoover initialed his approval of this arrangement on June 26. (*Ibid.,* 722.56/6–1956) In a memorandum dated September 4, Kalijarvi informed Hoover that the Ecuadoran lend-lease settlement arrangement entered into force on August 30 through an exchange of notes in Quito on that day. Terán and Alejandro Teodoro Ponce Luque, Minister of National Defense, signed for Ecuador. William A. Wieland, Chargé d'Affaires ad interim of the Embassy, signed for the United States. (*Ibid.*, 722.56/6–2956)

Under cover of a letter, dated September 21, Francis T. Murphy, Chief of the Lend-Lease and Surplus Property Division, Bureau of Economic Affairs, Department of State, forwarded an Ecuadoran check for $54,655, as payment of the first installment under the new agreement, to Charles T. Brannan, Chief of the Investments Branch, Division of Deposits and Investments, Department of the Treasury. (*Ibid.*, 723.56/9–2156)

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479. Editorial Note

The Ecuadoran presidential election, held on June 3, resulted in the election of Camilo Ponce Enríquez, the candidate of the conservative Popular Alliance. The outcome of the election was not announced until July 27 when Ecuador's Supreme Electoral Tribunal stated that Ponce had defeated the runner-up, Raúl Clemente Huerta, by a margin of 3,043 votes. Ponce, the first conservative President of Ecuador since 1895, took office for a 4-year term on August 31. Documentation on this subject is in Department of State, Central Files 722.00 and 722.11.

480. Memorandum of a Conversation, Department of State, Washington, October 3, 1956[1]

SUBJECT

Ecuadoran Mission Seeking Financial Assistance from the United States.

PARTICIPANTS

Minister of Economy Intriago
Minister of Public Works Duran Ballen
Former Ambassador José R. Chiriboga
Sr. Perez Chiriboga, General Manager Central Bank
Dr. Benjamin Peralta, Ecuadoran Chargé d'Affaires, a.i.
Sr. José Cardenas, Department Director, Central Bank
ARA—Mr. R. R. Rubottom, Jr., Acting Assistant Secretary
REA—Mr. A. Rosenson
OSA—Mr. Bragonier

At 11:00 A.M. the visitors called by appointment on Mr. Rubottom.

In making the first presentation of the Mission's objectives Minister Intriago seemed anxious to dispel an impression that the Mission had come to the United States primarily to seek a "bail-out" loan with which his Government could meet its current fiscal crisis.[2] He explained that the previous Administration had been "attracted" by the economic development of such neighboring countries as Colombia, Peru and Chile and had indeed spent more than it should. The Ponce Administration on the other hand, was not only bent on keeping its program within bounds but prepared to make the necessary sacrifices, if need be, to resolve by its own means the problems which it had inherited. He ventured the hope, however, that Ecuador might find some outside assistance at this juncture, and pointedly observed that the Department of State was in a position to appreciate the political as well as fiscal problems involved. He went on to say that while here he hoped to conclude a new PL 480 Sales

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[1] Source: Department of State, Central Files, 822.10/10–356. Confidential. Drafted by Reginald Bragonier. Initialed by Rubottom, indicating his approval.

[2] In a memorandum dated October 2, Bragonier informed Rubottom of the background to the Ecuadoran application for a stabilization loan. Bragonier wrote in part: "The Embassy has requested our urgent consideration for a loan to assist the Ponce Administration to meet the critical situation it has inherited from the Velasco Administration. The Embassy in one place refers to a $10–12 million 'bail-out loan' and in another to a 'stabilization loan' of some $15 million. It is not entirely clear just what type of credit the Ecuadorans will seek. However, it appears that the main purpose of the credit would be to provide the administration with sucres with which to pay off past due obligations on contracts and back wages to civil service employees and army personnel." Bragonier stated further that at preliminary meetings in the Department of State "the feeling was that if the Ecuadorans must have dollars for this purpose they should try, at least in the first instance, to get it from private banking sources, as the Peruvians did." (*Ibid.*, 822.10/10–256)

Agreement[3] and later to utilize the sucres generated from the sales for the agricultural development of the country, along with a dollar loan he hoped to obtain from the IBRD.

Mr. Rubottom replied that the Department appreciated the gravity of the situation in Ecuador. As for negotiating a PL 480 Sales Agreement it was his understanding that no problem of substance stood in the way.

The Minister of Public Works next spoke. He referred to the call he and former Ambassador Chiriboga had just made at the Eximbank and stated that he was somewhat surprised by the cool reception they had received. He then reviewed the various applications for loans the Ecuadoran Government has planned to make at that bank and at the IBRD, which applications are described in despatch 177 of September 28, 1956, from Embassy, Quito.[4] (It was gathered from Minister Duran Ballen's remarks that the Eximbank had perhaps received a bleak impression as to conditions in Ecuador from the Embassy's reports and that Minister Intriago, fearful that the same attitude might be encountered in the Department, sought from the beginning to give the impression that things are not quite as bad as they have been painted.)

Mr. Rubottom observed that the applications for a $250,000 loan to meet the extra costs of the Quevedo-Manta highway and for a $300,000 loan to construct a taxi-way at the Quito airport appeared to have merit. As for utilization of a portion of the $800,000 loan already granted to meet the local currency costs of the Ambato electric power project, there was some doubt in his mind as to whether the Eximbank would consider overruling its policy of not making dollars available to meet the local currency costs—with which policy, he observed, he was personally in agreement.

Former Ambassador Chiriboga then recalled with appreciation the assistance the U.S. Government has extended Ecuador and voiced his certainty that the Department fully appreciated the political and social implications of the present fiscal situation.

The two Ministers and former Ambassador Chiriboga were about to rise and leave when Mr. Rubottom turned to Sr. Perez Chiriboga and asked him for any opinions he might have. The latter explained that he had been attending the annual meetings of the IMF and IBRD. He emphasized that the Central Bank would continue to pursue its cautious course to maintain internal stability and Ecuador's credit abroad.

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[3] For text of P.L. 480, the Agricultural Trade Development and Assistance Act of 1954, see 68 Stat. 455.

[4] Not printed. (Department of State, Central Files, 822.10/9–2856)

In answer to an indirect question by Mr. Rubottom, the Ecuadorans implied that they are not at this time interested in a stabilization loan.

Mr. Rubottom thanked the Mission for the call, assured the visitors that the Department would give sympathetic consideration to their problems and stated that he was looking forward to seeing them at luncheon tomorrow.

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481. Telegram From the Acting Secretary of State to the Embassy in Ecuador[1]

Washington, November 21, 1956—10:23 a.m.

177. Embtel 273.[2] Please transmit personally to President Ponce following message from President Eisenhower[3]

"His Excellency Senor Dr. Camilo Ponce Enriquez, President of the Republic of Ecuador, Quito.

I have received the stirring message of solidarity you transmitted to me through Ambassador Ravndal. The readiness of Ecuador to offer a contingent of its own to join the United Nations Police Force at Suez now in process of formation is a reflection of the deep sense of responsibility Your Excellency's Government feels as a Free World partner of the United Nations in confronting the serious situation which has arisen in the Middle East. The sense of outrage experienced by Your Excellency over the ruthless suppression by Russian armed might of the heroic struggle for liberty recently made by the Hungarian people is fully shared by me. Your message and the solidarity of Your Excellency's Government with the stand taken by the United States in meeting the situation are deeply appreciated. Dwight D. Eisenhower."

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[1] Source: Eisenhower Library, Whitman File, International File. Confidential. Drafted by Bragonier and approved by Rubottom. Repeated to the U.S. Delegation at the United Nations.

[2] In telegram 273 from Quito, November 15, Ambassador Ravndal, who presented his credentials on August 29, informed the Department of a conversation with Ponce. The telegram reads in part: "During call on President Ponce today he spontaneously discussed Hungary Suez situations mincing no words in fully endorsing US stand both issues and pledging Ecuador's complete solidarity." Ponce stated further that Ecuador was prepared to contribute troops to an international police force. (Department of State, Central Files, 764.00/11–1556) A U.N. Emergency Force to deal with the situation in the Middle East was established by U.N. Resolution 1000(ES–I) adopted by the General Assembly on November 5. For text of the resolution and further discussion of the subject, see *Yearbook of the United Nations 1956*, pp. 36 ff.

[3] Under cover of a memorandum to the President, dated November 19, Acting Secretary Hoover forwarded the text of a suggested reply to Ponce's statement. The suggested text, which is identical to the transmitted message, bears a handwritten notation by Goodpaster, which reads: "OK'd by President 20 Nov. 56—State Dept notified to dispatch. G." (Eisenhower Library, Whitman File, International File)

Ambassador may wish remind President make proposal directly UN if not already done.[4]

Hoover

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[4] In telegram 295 from Quito, November 26, the Embassy reported that Eisenhower's message to Ponce had been delivered. (Department of State, Central Files, 711.11–EI/11–2656) In telegram 198 to Quito, December 13, the Department stated that the United Nations had not accepted Ecuador's offer to send troops to the U.N. Emergency Force. (*Ibid.*, 320.5780/12–1156)

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482. Letter From the Ambassador in Ecuador (Ravndal) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Quito, November 30, 1956.

DEAR DICK: The Minister[2] and Subsecretary of the Treasury asked me to meet with them on the afternoon of November 28 in order that they might inform me as to Ecuador's economic and fiscal situation and the country's need for financial assistance. They also had Fishburne, Corson, and Jasper Costa[3] at the meeting, since these three along with Wieland had been following the situation closely the last few months. (In this connection, please see Wieland's Despatch No. 259, of November 9, 1956.[4])

The Minister told me that the budget deficit for this year is around 300 million sucres, that they are getting between 100 and 150 million from the Central Bank, and that they really need to obtain about 150 million sucres from some external source. He added that the loan funds would be put into essential development projects such as highways and irrigation, explaining that this use of loan funds would take the place of expenditures now planned and thus release funds to meet the deficit which has been accumulating over the last few years.

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[1] Source: Department of State, ARA Deputy Assistant Secretary's Files: Lot 58 D 691, Ecuador. Confidential; Official–Informal.

[2] Fausto Cordovez Chiriboga.

[3] John I. Fishburne, Economic Counselor of the Embassy; Harland J. Corson, Director, International Cooperation Administration (ICA) in Ecuador; Jasper S. Costa, ICA tax adviser in Costa Rica.

[4] Not printed. (Department of State, Central Files, 822.10/11–956)

The Subsecretary (who, like the Minister, seems to be a very intelligent and competent man) then went into more detail on the proposed loan request. He said that Ecuador hoped to be able to obtain external assistance, and that if foreign assistance were not forthcoming, the country would have no other recourse than to call on internal sources of credit regardless of the adverse economic and possibly political effects of such a move. He stated that there is some inflationary pressure in Ecuador now because of the rise in the amount of money in circulation. The Subsecretary said that a foreign loan would be particularly beneficial because it would increase the country's international reserves; which in turn would permit a relaxation of import restrictions and result in greater imports, thus absorbing the inflationary pressure of an increased money supply and at the same time bring about a growth in Government revenue, since about 30 percent of the value of imports now goes to the Government through import taxes. Because of this increment in Government revenue, the amount of money needed as a foreign loan might be cut to about two-thirds of the actual deficit to be financed by this method.

The Subsecretary pointed out that the Velasco Government was running a deficit of about 31 million sucres per month in the last part of its administration. He said that the Ponce Government, through austerity measures and through increased order and efficiency in tax collection and administration, has managed to cut this deficit to about 14.2 million sucres per month for the period September-December, 1956. He said that the budget for the year 1957 is lower than the present one, thus reversing the trend of ever-increasing Government expenditures in the last six years. This is being effected, he pointed out, through reduction of expenditures and through imposition of new taxes, both of which measures are extremely unpopular. He observed that if a large percentage of the Government revenues in 1957 have to go into the payment of back debts, the Ponce Government will not be able to carry on any developmental project and the people of the country will accuse the Government of being inefficient and unable to improve the welfare of the country. The Subsecretary remarked that the resulting wave of criticism and antagonism to the Ponce Government might cause its overthrow, and the beneficial effects of 12 years of constitutional Government would be wiped out. He stated that the overthrow of the Ponce Government would probably bring "caudillismo" back to Ecuador and he mentioned specifically the danger of the advent to power of Guevara Moreno and his CFP followers.

The Subsecretary then stated that they were requesting me informally to consult with Washington to see if there are legal means for the United States to make a loan to Ecuador to help extricate this country from its fiscal difficulties. He said that if we found that there is an existing channel for extending the desired aid, then Ecuador could make a formal petition for assistance. He pointed out that Ecuador is a small country and that for political and economic reasons and for reasons of national pride, the Ponce Government cannot take the risk of a formal refusal of a request for a foreign loan. He said that if, after exploring the possibilities, we find there is no way in which the loan assistance can be given to Ecuador, the country will then just have to do what it can with its own resources regardless of possible untoward consequences. Both the Minister and the Subsecretary stated that they would appreciate our looking into this matter and letting them know what the situation is so far as the possibility of a loan from the United States is concerned.

During the subsequent discussion, it was brought out that Ecuador cannot legally borrow, either from internal or foreign sources, for the direct purpose of meeting a budget deficit in the Operations Budget. What Ecuador desires, therefore, is a loan to be used on development projects such as those in Ecuador's Capital Budget. Government receipts now earmarked for the Capital Budget could then be carried back to the Operations Budget, thus permitting the Government to meet its essential obligations. The Subsecretary said that the Government's idea on the proposed foreign loan is to spread it over several budget years, beginning if possible with the end of the present year, using some of the funds in fiscal 1957 (which coincides with the calendar year) and some in fiscal 1958.

The Minister and the Subsecretary stated that a short-term loan such as they might be able to obtain from commercial banks would not meet Ecuador's needs, since the same problem would be bound to arise again in attempting to meet the necessarily large payments for interest and amortization. On the other hand, they believe it would be comparatively easy to finance the services of a long-term loan due to the expected development in Ecuador's economy. They pointed out that Ecuador's general economic situation is good, that prospects for the future are bright, and that it is only the Government fiscal situation that is a matter of concern at the present time.

In essence, the idea of the Minister and the Subsecretary is to obtain a dollar loan from the United States, to use the funds to buy United States goods through regular commercial channels, and to use the resultant sucre funds (which would accrue to the Government when the dollars are made available to importers) in development projects such as highways and irrigation. In the process, the Government would find its deficit relieved, partly by increased income from import duties, partly from increased tax revenue due to the generally heightened level of business, and partly by being able to decrease the amount of money it would otherwise be forced to spend on development projects. The advantages to the United States are obvious: (1) United States business would benefit from increased sales to Ecuador and from increased investment opportunities due to greater political and economic stability in Ecuador; (2) the United States Government would benefit from increased stability in this region and from the maintenance and strengthening of a friendly Government in a friendly country.

I was favorably impressed with the earnestness and the evident capability of the Minister and his Subsecretary, just as I am favorably impressed with the Ponce Government as a whole. I am convinced that this administration is sincere, competent, and hardworking and that it has Ecuador's best interests at heart. In view of the good qualities of the present administration, especially in comparison with what might arise in Ecuador if this Government came to grief, I think we should do everything possible to help them get on their feet. It seems to me it would not be in our interest to let this Government and Ecuador come to grief through a policy of "too little and too late". I believe it is time for Washington to do some earnest thinking on this matter and give every consideration to devising a means of extending assistance now while it can make an effective contribution to stability in Ecuador and to the furtherance of United States policies and objectives in this area.

With warmest personal regards and best wishes,

Yours ever,

Chris

483. Letter From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in Ecuador (Ravndal)[1]

Washington, December 10, 1956.

DEAR MR. AMBASSADOR: This is in answer to your letter of November 30 in which you report your conversation with the Minister and Subsecretary of the Treasury on the Ecuadoran financial situation and their desire for assistance from us. I agree with you on the necessity for some earnest thinking on the part of Washington on this matter. In fact, the Department had already been canvassing all the possibilities very carefully with the various interested agencies as indicated in its telegram No. 179.[2] The net result of these discussions is summarized in the paragraphs below. I should add, however, that there is some feeling here that the Ecuadorans have not bestirred themselves as actively as they might in finding a solution to their problem. This refers particularly to the possibility of borrowing from private sources which I shall touch on below.

First, let me give you the conclusions which have been developed with respect to external assistance.

1) United States Government agencies are not in a position to provide dollars, either by grant or by loan, to cover sucre expenditures.

2) As to the IMF, we understand that the Ecuadoran Central Bank people know that they have a good prospect of obtaining a drawing or stand-by agreement or both, provided they can satisfy the Fund that they are adequately dealing with their internal inflationary situation. However, we understand that the Central Bank expects to be very conservative in actually drawing on the IMF and prefers to keep any stand-by arrangement intact for psychological reasons. The Ecuadoran quota, as you know, is $10 million and this would be the maximum assistance which they can expect from the Fund.

3) Ecuador has shown some interest from time to time in the possibility of an exchange stabilization agreement with the U.S. Treasury. The Treasury has not committed itself on this subject. In any event, the Ecuadorans should understand that Treasury stabilization credits are generally part of a "package" arrangement wherein they may be drawn upon only after other credits, such as the IMF stand-by and possible private bank lines of credit have been exhausted. Ideally, the Treasury portion of any such package is not expected to be spent. Moreover, a Treasury exchange agreement would not be designed to deal with Ecuador's budgetary deficits

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[1] Source: Department of State, ARA Deputy Assistant Secretary's Files: Lot 58 D 691, Ecuador. Confidential; Official–Informal.

[2] Not printed.

either immediately or in the future, but rather to provide confidence in the Ecuadoran currency.

4) Sucres can be provided under P.L. 480 for economic development purposes, but the FY 1955 loan use program approval did not include funds for activities which up to now have been regular budgetary items. Although the FY 1957 sucre loan funds could be authorized for use on legitimate economic development projects which formerly have been budgeted for, the United States is adhering to the principle that P.L. 480 funds should not be used for budget support. To conform to this principle it would be necessary for Ecuador to eliminate any projects to be financed by P.L. 480 from its budget or at least to isolate them so that it does not appear that the budget was balanced using P.L. 480 funds. In any case, it is obvious that P.L. 480 local currency from the agreement now pending will not become available in time to help balance the 1956 budget.

5) Loans from the Export-Import Bank or the IBRD to cover foreign exchange expenditures (whether appearing in the budget or not) can be provided only for specific projects which have been thoroughly studied and approved by the lending agencies. This requires some little time; consequently such assistance would not be available to help meet the 1956 budget problem. It might be available in 1957 and subsequently. This would depend upon presentation by Ecuador of applications covering sound projects and upon the lending institutions' judgement of Ecuador's credit worthiness.

6) Finally, as regards borrowing from foreign private banks, your letter quotes the Minister as saying that a short-term loan such as they might be able to obtain from commercial banks would not meet Ecuador's needs, since the same problem would be bound to arise again in attempting to meet the necessarily large repayments. When Harland Corson was up here from Quito about six weeks ago he informed us that he had been told by Intriago that the best that Perez Chiriboga had been able to obtain in New York was the possibility of loans up to 180 days. I therefore presume that when the Minister spoke of "short term loans" he had in mind loans of approximately that maturity. The U.S. money market has, of course, tightened up very appreciably in recent months. However, I understand that where the borrowing country will undertake not to use the dollar funds such loans can be and have been arranged for medium terms and at relatively low rates of interest. If a loan were to be obtained on such a basis, the dollar proceeds could, of course, not be used for imports; they would have to remain on deposit in the U.S. However, it should be possible for the Central Bank to issue sucres to the government in exchange for the dollars and these local funds could then be used by the government for budgetary purposes. I think it would be worthwhile suggesting to the Ecuadorans that they have Ambassador Chiriboga explore the possibility of such private bank loans, particularly with American banks that have had dealings in Ecuador. (I should add, incidentally, that most of us feel rather dubious about the wisdom of using any portion of foreign financial assistance for the purpose of increasing imports.)

On the internal side it is appreciated up here that the government has been making determined efforts to cut expenditures and raise new revenue. From what is known here, however, it is not clear whether all possibilities for finding new sources of funds have been exhausted. For instance, has the government attempted to borrow from private banks or other financial institutions in Ecuador? Also, Messrs. Brand and Altman[3] of the IMF mission think that the Central Bank should impose tighter credit restrictions on the private sector.

Over the longer run the government might wish to consider the possibility of encouraging the creation of a bond market as a source of noninflationary internal financing. The IBRD is understood to have provided technical assistance in at least one other case in this respect.

The Ecuadoran Government is understood to have asked the IBRD for assistance in obtaining a mission to advise it in the financial field. Such a mission should be helpful. It is presumed the Ecuadoran Embassy here will receive orders to press the IBRD directly for an early departure of such a mission but if you think it would be helpful for us to jog the Bank also, we'll see what we can do.

All of the foregoing is written on the assumption that while the political situation is serious it is not critical. If it were to deteriorate to the point where the overthrow of the Ponce administration was a serious possibility, the only conceivable source of immediate economic assistance from U.S. Government sources would be the Presidents Fund (Section 401 of the Mutual Security Act). However, in view of the troubled world situation it is unlikely that Ecuador could claim sufficient priority to justify resort to this Fund. Other Mutual Security funds from the FY 1957 appropriation for Latin America are fully obligated or earmarked, and there is every indication that they will be fully utilized. The transfer to Ecuador of funds allocated to other areas would, of course, require a very high level decision.

I hope that the foregoing will prove useful to you in discussing this whole problem with our Ecuadoran friends. I should say that Ponce has made a fine impression up here in the way he has met the situation he inherited from Velasco. If he can see this thing through his stock should go up even higher. In any event you may rest assured that we are thoroughly aware of the political risks involved.

With all best wishes.

Sincerely,

R. R. Rubottom, Jr.[4]

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[3] Paul J. Brand, head of the International Monetary Fund mission to Ecuador in October 1956, and Oscar Altman, a member of that mission.

[4] Printed from a copy which bears this typed signature.

484. Letter From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in Ecuador (Ravndal)[1]

Washington, December 31, 1956.

DEAR CHRIS: I have read with interest your letter of December 14[2] on jet aircraft and wish to assure you that we have had very much in mind the political implications of not providing Ecuador with jet aircraft under the Military Assistance Agreement of February 20, 1952[3] if such aircraft are provided to Chile and Peru. It is true that the jets are not presently included in the fiscal year 1957 program for Ecuador. (In fact, the Bureau of the Budget is holding up fiscal year 1957 funds for the jet squadrons for the eight Latin American countries concerned because it is not satisfied that the provision of jets is consistent with NSC 5613/1, especially paragraph 32.[4] The Department of Defense has prepared a further justification to the Bureau of the Budget on this point.) The F80C jets have been omitted from the Ecuadoran program until such time as Defense can satisfy itself that Ecuador is militarily capable of receiving and utilizing the aircraft and that it has the economic and financial resources to maintain and operate them.

While not forgetting the political problems discussed in your letter, Defense's concern, which is also shared in part by other agencies including the Department, arises out of reports made by its Attachés and the Embassy on the military and financial capability of Ecuador. The Air Attaché to Ecuador,[5] resident in Bogota, in commenting on the proposed fiscal year 1957 program (see IR-122-55)[6] stated "It is hard to visualize how an air force the size of the Ecuadoran Air Force can maintain their present British jet equipment and still accept a squadron of jet aircraft from the U.S. as they have neither the manpower nor the money to operate this quantity of equipment." The recommendations of the MAAG Chief submitted a year later indicated an improvement to the extent that he believes "Ecuador can absorb, utilize and maintain the equipment (jet aircraft) if it is phased-in in equal increments of five in each of the years 57, 58 and 59." He notes that sufficient personnel are available to man five jets and to provide POL for them but clearly implies that Ecuador could not support any more. He adds that "because of both political and economic instability, the country is not able to assume any financial responsibility for spares in the foreseeable future". As you note in your letter, Ecuador has now received four T-33 jets for fiscal year 1957 (which is only one less jet than the MAAG Chief recommended for fiscal year 1957) and Defense would like to see how Ecuador utilizes and maintains these aircraft before providing more.

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[1] Source: Department of State, ARA Deputy Assistant Secretary's Files: Lot 58 D 691, Ecuador. Secret; Official–Informal. Drafted by Sayre.

[2] Not found in Department of State files.

[3] For text, see 3 UST 4162.

[4] NSC 5613/1, "U.S. Policy toward Latin America, August 20, 1956", was approved by the President on September 25, 1956. For text, see vol. VI, Document 16.

[5] Colonel James C. Robinson, Jr.

[6] Not printed.

The Embassy's comments on the Ecuadoran financial capabilities, which were submitted on July 18, 1956 as a part of the MAAG recommendations on the fiscal year 1957 program were highly pessimistic of Ecuador's ability to utilize military equipment provided. The Embassy stated that "Ecuador's capability . . . [7] is severely limited by the critical economic and fiscal condition of the country. For the last several years, Ecuador's Central Government has had insufficient revenue to finance its obligations and has been unable, through any means, to meet some of its most pressing and important commitments . . . The national Treasury is practically empty and it is likely that whatever Government is in power will, within the next few months, have to obtain a bail-out loan from abroad or else resort to the printing press for funds . . . It is obvious that Ecuador is in no position to expand its expenditures for military purposes, and that it should actually cut those expenditures down as much as possible . . . Ecuador will have to retrench in all expenditures if the country is to avoid fiscal and economic chaos."

At the time the fiscal year 1957 program was being considered, Ecuador's fiscal situation was therefore believed to be serious, much more serious than that of either Chile or Colombia, although certainly not as serious as that of Bolivia with which we have no military assistance agreement and to which we are giving no military equipment. Your letter would indicate that Ecuador's situation is much improved and that it can now take on the high operational and maintenance cost of a squadron of U.S. jets in addition to the British jets it already has, though recent Embassy reports and your letter to me of November 30 have continued to reflect concern over the fiscal situation which will confront the Government in 1957.

(We assume, of course, that Ecuador would discontinue use of the F–47s.) The report of the Air Force Mission also gives a brighter picture of Ecuador's military capability for utilizing jets.

Defense has made no final decision on providing jets to Ecuador, but if the Bureau of the Budget releases the funds it is inclined to include them in the program partly on our urging for political reasons. It would be most helpful if the Embassy and the Air Mission could give us by despatch an up-to-date report on Ecuador's military, economic and financial capabilities to use in support of the political justification.[8]

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[7] These and the following ellipses are in the source text.

With warmest personal regards,

R. R. Rubottom, Jr.[9]

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[8] Under cover of a letter dated January 4, 1957, Ravndal forwarded to Rubottom two reports, prepared in the Embassy, which outlined the military and economic aspects of the request for the aircraft. Ravndal stated that Economic Counselor Fishburne and Colonel Robinson, "firmly believe that Ecuador can support economically and militarily the additional aircraft in spite of the current fiscal problem." (Department of State, Rubottom Files: Lot 59 D 573, Ecuador) Under cover of a letter of January 29, Ravndal sent to Rubottom a copy of a memorandum prepared by the Air Attaché in Bogotá, Colonel G. W. Crabbe. In this memorandum, Crabbe stated in part, "It is strongly recommended that if other South American countries are given an F–80 squadron under grant aid that Ecuador also be included." (*Ibid.*) In a letter dated February 7, Rubottom informed Ravndal that the Department of State had sent a letter to the Department of Defense recommending that the jet aircraft be furnished to Ecuador. In a letter to Ravndal of February 14, 1957, Rubottom stated in part, "We have been informed by the Department of Defense that it will include a squadron of thirteen F–80C jets in the grant Military Assistance Program for Ecuador." (*Ibid.*)

[9] Printed from a copy which bears this typed signature.

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485. Memorandum of a Conversation, Department of State, Washington, February 7, 1957[1]

SUBJECT

Financial Aid to Ecuador

PARTICIPANTS

Mr. Maurice M. Bernbaum, OSA
Mr. John Duval, Export-Import Bank
Mr. George Galloway, Export-Import Bank
Mr. John Cady, Export-Import Bank
Mr. John Blodgett, E
Mr. John Hopkins, REA
Mr. Bainbridge C. Davis, OSA
Mr. Glenn R. Ruihley, OSA

Mr. Bernbaum opened the meeting by saying that the Department is obliged to consider financial aid to Ecuador in view of many indications that the position of President Ponce is rapidly deteriorating. It is a government of which we approve, and one which we should support in our own interest. The present threat to the President stems from the sound, conservative policies he has adopted, which are measures we would like to encourage in Ecuador, Mr. Bernbaum remarked. These policies follow on a period of extravagant spending and irresponsibility under previous administrations, a fact which has magnified the financial and political difficulties of the present government. To cope with his budgetary deficit, President Ponce has inaugurated an austerity program with reduced government expenditures. Credit has been tightened and import taxes increased. Public reaction to these measures has been extremely unfavorable, Ambassador Ravndal has received appeals for help, and it appears that the government is steadily losing support. Mr. Bernbaum pointed out that one of the chief obstacles to extending aid to Ecuador has been the fact that the government needs funds in sucres for current expenses, which assistance would not be available under Eximbank practices, while the Ecuadorans have preferred to reserve their International Monetary Fund stand-by credits for a foreign exchange emergency. Because of these facts, it had been suggested that the government might be aided through the extension of exporters' credits. However, it was understood that the Eximbank would be reluctant to come to the rescue of Ecuador.

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[1] Source: Department of State, Central Files, 822.10/2–757. Confidential. Drafted by Glenn R. Ruihley and initialed by Bernbaum.

Mr. Bernbaum then read a letter from Ambassador Ravndal[2] which suggests that the Eximbank extend a fifteen to twenty year loan to Ecuador, the repayments to be in sucres for the first year or two. Mr. Hopkins read his reply[3] to the Ambassador's letter which gave encouragement to the idea of aid through export credits, but asked the Embassy to furnish a specific list of such exports so that the proposal could be given serious study.

At this point Mr. Cady related the background for the ill feeling which exists for the Ecuadorans at the Eximbank. He said that the Ecuadorans are "troublesome". They repay the sums borrowed, but there has always been a series of problems, one following the other. So much misunderstanding and bad feeling had been generated last year, that the Bank had dispatched a special mission to study the problem. Mr. Cady also pointed out that the Ecuadoran fiscal crisis arising from the budgetary deficit is not new and that reports had been made on it last fall at the time of the mission to Quito. The question of help from the Bank had been raised, but when the mission arrived on the scene, the idea was not mentioned at all. Ecuador is a "dirty word" at the bank, Mr. Cady said. The idea of direct help for the government budget must be considered completely "out of bounds". Mr. John Fishburne of the U.S. Embassy, Quito, had accompanied the Eximbank mission on its travels in Ecuador as a means to tune in the Embassy. For this reason, the U.S. Ambassador and Mr. Fishburne must have understood the position of the Bank from the beginning.

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[2] Document 482.

[3] Apparent reference to Rubottom's letter, *supra*.

In regard to the proposal of aid through export credits which had been raised earlier in the discussion, Mr. Galloway expressed the opinion that it is not a bad idea and asked what might be covered by them. Two possibilities were mentioned: (1) credit lines for commercial importers which might be used to provide more dollars, (2) a line of credit either to U.S. exporters or the Ecuadoran Government to purchase capital goods which the government has included in its 1957 budget. The second of the two possibilities would be the more effective since it would put dollars directly into the hands of the government for conversion into the sucres that it needs. It was remarked that what is intended is to cover only goods entered on the budget and not materials for new projects.

On the other hand, Mr. Galloway stated that the "climate" at the Bank is unfavorable for requests from Ecuador. He mentioned the case of an Ecuadoran contractor who was "always raising issues and these issues were carried to high levels". When the Intriago Mission was in Washington, it was given the "cold shoulder," Mr. Galloway said. To hope to succeed at the Bank we must have a project of indisputable merit, Mr. Cady remarked. It was decided that our first step should be to sound out feeling at the directors' level at the Bank.

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486. Telegram From the Ambassador in Brazil (Briggs) to the Department of State[1]

Rio de Janeiro, April 5, 1957—7 p.m.

1067. Deptel 889.[2] Regret find myself opposite end of seesaw from Department regarding possibility obtaining solution Peru-Ecuador boundary dispute along line recent Washington conversations, which unless I misread portents are predicated on "we can't bear to hurt anybody's feelings". That might be profitable slogan in event

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[1] Source: Department of State, Central Files, 622.233/4–557. Confidential. Repeated to Buenos Aires, Santiago, Quito, and Lima.

[2] Dated April 1. (*Ibid.*, 622.233/3–2157)

Department willing let dispute drag indefinitely, for instance on theory that faced with more pressing world problems this one looks small and best we can do is engage disputants in conversation pieces, but it is my impression we are really desirous of promoting early settlement.

If we are, then I respectfully submit Guarantors should stop dancing around the mulberry bush. Specifically, Guarantors should go much further than expressions of hope or reiterated assurances of impartiality. They should say what they believe and be prepared adopt firm unequivocal position.

1. Fact is Ecuador considers swindled by 1942 Protocol and is out to wreck it. (As reflected by Chiriboga in Washington and Ecuadoran Ambassador here, Ecuadorans are more and more openly revealing their real purpose to be revision Protocol to obtain access Maranon River. This pretension should be batted down since under no conceivable stretch of "geographic realities" would boundary set forth in protocol any where approach Maranon.)

2. Guarantors should tell Ecuador politely but firmly that all boundary markers already in ground and accepted by both governments, stand. With respect segments thus far undemarcated Guarantors prepared examine arguments of disputants and will cooperate with whatever surveys of whatever nature may be necessary to draw fairest possible line to fill in gaps. (Guarantors could at this point urge Peru show generosity since Ecuador's resentment over loss through protocol of much previously claimed territory is understandable. But generosity in context protocol certainly begins west of Santiago River and north of Maranon.)

3. Problem would thereupon be limited to measurable dimensions and Ecuador's current effort demolish protocol would be identified. It seems to me that any other view of boundary already marked and accepted leads to nearest asylum and I do not understand what Department means by reference obtaining necessary evidence for legal opinion, etc. (Deptel 864[3]) unless our purpose is procrastination as mentioned opening paragraph.

4. Ecuador may at outset by unhappy, but so what? Guarantors cannot expect to have it both ways, and question here is whether early and fair solution more important than possible dissatisfaction one party. Ecuador accepted and ratified protocol and Guarantors responsible for making it stick.

5. Should Department agree to vigorous approach outlined, first job, perhaps difficult, will be to convince other three Guarantors. (It is my impression Argentina and Chile may favor declaring valid markers already fixed and accepted, possibly in context arbitration

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[3] Dated March 25. (*Ibid.*, 622.233/3–1957)

balance of boundary, but that Brazilian Foreign Minister would be happy continue don't-bother-me course or even hand dispute to some other entity, Royal Geographic Society for example.) Next step would be vigorous diplomatic activity by all four countries in Lima and Quito.

Success of foregoing naturally cannot be guaranteed but it seems to me after wrestling with problem for past 2 years, during which no progress whatever made, that adoption foregoing offers better prospect than efforts expended since work of Boundary Commission broke down.

Would appreciate receiving Department's views as well as comments other missions.

Briggs

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487. Circular Airgram From the Secretary of State to Certain Diplomatic Missions[1]

CA–8730 *Washington, April 22, 1957.*

SUBJECT

Peru–Ecuador Boundary Problem

Reference is made to Embassy Rio de Janeiro's telegram no. 1067 of April 5, 1957,[2] concurred in by Embassies Lima and Quito, recommending that the Guarantor Powers tell Ecuador politely but firmly that all of the boundary markers placed and accepted by both governments are binding, that the Guarantors are prepared to examine the arguments of the disputants concerning the unmarked sectors, and that they will cooperate with whatever surveys may be required to complete the demarcation of the border.

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[1] Source: Department of State, Central Files, 622.233/4–2257. Confidential. Drafted by Bernbaum and Sandy M. Pringle of the Office of South American Affairs (OSA) and approved by Rubottom. Sent to Buenos Aires, Rio de Janeiro, Santiago, Quito, and Lima.

In a memorandum to Rubottom, dated April 19, Terry B. Sanders summarized Briggs' recommendations regarding the boundary dispute. Sanders stated in part, "Our reservations concerning Ambassador Briggs' recommendations are based on the fact that we are not prepared to say all of the markers already placed are legally binding on Ecuador, that we feel the action proposed by him may not be within the proper function of the Guarantors, that we doubt whether his proposed policy would be acceptable to the other Guarantors, and that we do not believe it could successfully be imposed upon Ecuador." (*Ibid.*, 622.233/4–1957)

[2] *Supra.*

Reference is also made to Rio de Janeiro's telegram no. 1106 of April 15, 1957,[3] stating that the current US policy on the boundary problem has been given ample trial and has not produced results. This telegram was in response to the Department's apprehension over the nature and scope of the above recommended change from the existing policy which was established by CA-3603 of November 7, 1955.[4]

The course of action proposed by our Embassy at Rio de Janeiro would be marked change from present US policy, and the following comments are submitted by the Department as a basis for comment by the various Embassies concerned in working out a satisfactory solution to the problem.

Attitude of the Guarantors

The proposal by the Embassy at Rio de Janeiro would require on the part of the Guarantors a degree of firmness that has thus far, at any rate, been out of the question.

Prior to the adoption by the Guarantors of their resolution in May 1956, requesting the authorization of Peru and Ecuador for an aerial survey, the role of the Guarantors was substantially limited to intermittent placatory efforts simply to keep the exacerbated issue between Peru and Ecuador from erupting in armed hostilities. There was little or no serious thought by the Guarantors of doing anything which might risk irritating further either or both sides, as would be required by intervention actively to seek a precise settlement of the boundary in the disputed zone. It seemed that, for internal political reasons, no Ecuadoran Government could accept a definitive settlement short of access to the Maranon River. Also for internal political reasons, no Peruvian Government could meet Ecuador's aspirations.

When, therefore, the Department decided in mid-1955 that something should be done to break the impasse, the border crisis of September 1955 was seized upon as an opportunity to pressure the other Guarantors into giving active consideration to the problem. It was only after Ecuador in effect forced Brazil to convene the Guarantors that we were able to make progress. The Guarantor resolution of May, 1956 calling for an aerial survey was achieved only through the application of pressure on Chile and Argentina who were reluctant to act. The former's fear of Peruvian reprisal on the Tacna-Arica boundary was stronger than her tendency to favor

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[3] Not printed. (Department of State, Central Files, 622.233/4-1557)

[4] In CA-3603, the Department stated that it was convinced that constructive action toward a final delimitation of the boundary would be taken only with the assistance of the Guarantors and that a forced settlement would fail to achieve the objective of improving relations between the two countries. (*Ibid.*, 622.233/11-755)

Ecuador. Argentina wanted to avoid trouble and went along with the majority.

So far as the Department is aware, the basic attitudes of Brazil, Argentina, and Chile toward the boundary problem remain intact. If this is so, the possibility of inducing them to take comparatively drastic action at this time would seem to be remote.

Results of US Policy to Date

The present US position, which was prepared with the personal participation of representatives from the three US Embassies directly concerned, is based on the following premises:

> 1) The fundamental problem is that of improving relations between Peru and Ecuador, the issue of demarcating the border being an essential aspect of this problem. 2) Neither the improvement of relations nor the demarcation of the border can be achieved by coercion. 3) The best prospects for success lie in carrying out a survey to determine the geographical facts involved and getting the two parties actively to seek possible formulae for a solution. 4) Rapid and spectacular results cannot be expected.

With the above as the underlying basis for its policy, the US set certain intermediate objectives. Key among these were: 1) to encourage an exchange of Ambassadors between Peru and Ecuador; 2) to induce the Guarantors to take the initiative in proposing a geographic survey; 3) to stimulate the disputants to suggest and discuss with each other possible formulae for breaking the impasse; and 4) to obtain Ecuadoran and Peruvian acceptance of the aerial survey proposal.

Objectives 1 and 2 have been accomplished, and the difficulties overcome in getting the Guarantors to pass the survey resolution should not be minimized. With regard to 3 and 4, the Department believes that substantial progress has also been made. While Peru has refused to agree to a survey to date, both the Peruvian and Ecuadoran representatives in Washington have assured the Department that they would continue actively to seek some formula which might make an aerial survey acceptable to both parties, and there have even been indications that the Peruvians have attempted to hold direct conversations in Quito. While the Department certainly does not maintain that the present policy has achieved any startling success, it does believe that, looking at this exceedingly complex problem in perspective, some solid progress has been made. It also believes, as outlined at the end of this instruction, that there are prospects for further progress.

Embassy Rio's Proposals

The following are further observations on the procedure proposed by our Embassy at Rio de Janeiro, a procedure which, incidentally, was carefully considered prior to the adoption of the policy outlined in CA-3603 of November 7, 1955.

1) Rio's proposal is based on the premise that the markers already placed are binding upon Ecuador. Ecuador maintains that markers placed in the south between the Quebrada San Francisco and the unmarked area are not binding for any or all of the following reasons: They were placed in error of the true geographical facts; Dias de Aguiar[5] exceeded his authority in including this area in his award; and these markers were not fully and duly ratified by the Government of Ecuador. This matter has been carefully considered in the Department, and it is not in a position to give an opinion as to the legal status of the markers already placed,[6] It believes that judicial procedures, or mutual agreement, as distinguished from a finding by the four Guarantors, or any one or more of them, would be required to arrive at a definitive determination of this matter.

2) Embassy Rio de Janeiro's recommendation appears to be based upon a possible misconception of the role of the Guarantor Powers under the Rio Protocol. Article VII provides that "any doubt or disagreement which may arise in the execution of this protocol shall be settled by the parties concerned, with the assistance of the representatives of the United States, Argentina, Brazil, and Chile, in the shortest possible time." The Department considers that the basic responsibility for finding a solution, or method of solution, rests with the Governments of Peru and Ecuador, and that it is the Guarantors' responsibility to take actions which will assist toward that end.

3) The Department doubts that the procedure proposed by the Embassy would be acceptable to the other Guarantor Powers. Probably none of them—and particularly not Chile—would wish to bring the required pressure upon Ecuador, since such action might seriously jeopardize their present relationships with that country. Were the Guarantors even to discuss the proposed policy change, knowledge of the fact would probably come to Ecuador's attention. This would not only adversely affect Ecuador's friendship with all of the Guarantors (especially with the US as initiator of the proposal) but also might impair the Guarantors' ability to serve any further useful function in the event that the proposed policy failed.

4) Even should the other Guarantors agree to the procedure, the Department considers it probable that Ecuador would adamantly refuse to yield. Whereas the Guarantor resolution proposing an aerial survey, although it coincided with Ecuador's desires, was logically impartial and capable of being explained to Peru on logical grounds, the action proposed in the reference telegram would involve the

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[5] Captain Braz Días de Aguiar of Brazil proposed a boundary between Peru and Ecuador which was accepted by the two countries as part of the Rio Protocol of 1942.

[6] because of appreciation that only in a litigation would all possible evidence and positions of both sides be fully developed. [Footnote in the source text.]

Guarantors' taking sides. Rather than facilitating Ecuadoran acquiescence, this might exacerbate nationalist feeling and make it dangerous for the Ecuadoran Government to relinquish its position.

The Department continues to be of the opinion that action to force either Peru or Ecuador into a settlement of the boundary would probably be unsuccessful in its immediate purpose and would certainly fail to achieve the real objective of improving relations between the two countries. It is not the Department's policy to let this dispute drag any longer than necessary, but the Department does seriously question the wisdom of trying to force a "solution" which promises to exacerbate feelings without settling anything.

In numerous conversations with representatives of the Peruvian Embassy, the Department has repeatedly emphasized that the Guarantors' support of the survey proposal does not signify bias in favor of Ecuador's position. Now that Ecuador has more openly revealed its true objective to be a revision of the Rio Protocol to obtain access to the Marañon River, Peru is understandably even more reluctant to agree to the survey proposal. This Ecuadoran objective, however, has been known for years to both the Peruvians and the Department. It does not affect the basic logic of the survey proposal, but it does point up the necessity of Peru's obtaining assurances that the survey will not just result in demands for a revision of the Protocol.

Present Course of Action

In the Department's opinion a geographic survey of the zone defined by Article VIII B(1) of the Protocol within a context of mutual agreement still represents the most promising step toward eventual solution. It does feel, however, that a new element could profitably be added to the survey proposal. It should include some mutually acceptable and binding agreement assuring that the survey will be followed by whatever action might be required—such as direct negotiation, or failing resolution of the matter within a specified period, judicial review, or arbitration—to bring about a final demarcation of the border.

The Department believes that only the introduction of such a second step will now offer any reasonable prospect of Peru's accepting the survey proposal. To this end, the Department is encouraging the Peruvian representatives in Washington in their efforts to devise a formula which would permit both Peru and Ecuador to accept the survey. It is hoped that Peru will become convinced that, regardless of the geographic facts disclosed by an aerial survey, it probably has nothing to lose by submitting the question of final demarcation to judicial review or arbitration. It is doubtful that the terms of the Rio Protocol and the Dias de Aguiar Award would justify any decision which would put Ecuador on the Marañon River. Thus, the risk for

Peru in accepting an aerial survey, coupled with a binding agreement on subsequent action, might not appear excessive, assuming Peru sincerely desires to terminate the dispute.

Presented with a formula of this type, Ecuador might well accept it in spite of the second step involved. It would incorporate the survey proposal which it strongly favors and would appear to give Ecuador the substance of its position. However, in accepting it, Ecuador would then have maneuvered itself into a position where it would have to agree to proceed with a binding settlement of the dispute based on the results of the geographic survey. Having agreed beforehand to the procedure with the concurrence of the Guarantor Powers, Ecuador would not be able to insist blindly upon a revision of the Protocol nor could it effectively appeal for international sympathy as a victim of pressure from the Guarantors.

Action Requested

The Department heartily agrees that there should be exploited every opportunity for constructive action to settle the boundary issue and improve relations between Peru and Ecuador, and it is hoped that the above discussion will induce further comments by our Embassies. Arrangements are being made for Maurice M. Bernbaum, Director of the Office of South American Affairs, to visit Rio de Janeiro on or about May 13 for a discussion of the various phases of the problem with Ambassador Briggs. It would be very helpful to have comments of the other Embassies on this instruction available in Rio de Janeiro at that time.

The Department considered the possibility of authorizing Ambassador Achilles and Ambassador Ravndal to travel to Rio de Janeiro for consultation, but this plan was discarded because of a lack of funds and because such a meeting might give rise to undesirable speculation about its purpose.

Mr. Bernbaum will be travelling to Rio de Janeiro with General Lemuel C. Shepherd, Chairman, Inter-American Defense Board, who will be en route to Buenos Aires. If funds permit, Mr. Bernbaum may return to Washington by commercial airlines via Lima and Quito, and under such circumstances he will notify the Embassies at Lima and Quito in advance of his arrival.

Dulles

488. Memorandum of a Conversation, Department of State, Washington, May 7, 1957[1]

SUBJECT

1. Economic and Political Situation in Ecuador.
2. Ecuadoran Relations With Czechoslovakia.

PARTICIPANTS

Ambassador Chiriboga of Ecuador
Mr. R. R. Rubottom, Acting Assistant Secretary for Inter-American Affairs
Mr. William P. Snow, Deputy Assistant Secretary for Inter-Amer. Affairs
Mr. M. M. Bernbaum, OSA
Mr. B. C. Davis, OSA

Ambassador Chiriboga called at his request and stated that he had a matter to discuss which was important because Mr. Bernbaum was about to visit Quito and was also extremely important in itself. The Ambassador stated that President Ponce had performed miracles in improving the economic situation in Ecuador.[2] He pointed out that last October the exchange rate had been 19 sucres to the dollar whereas it is now about 17.40. The President had taken various measures which were highly commendable but, nevertheless, unpopular and the success which he had achieved in improving the economic and fiscal situation in Ecuador had also exposed him to political dangers. He said that the Communists are in a strong position in Ecuador today and particularly so because the CFP under Guevara Moreno, while claiming to be non-Communist, has actually established close relations with the Communists and is striving to overthrow the Ponce Government.

President Ponce is, of course, aware of this situation and of the efforts being made by the Czechoslovakian Legation to stimulate Communist activity in Ecuador. He has written to Ambassador

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[1] Source: Department of State, Central Files, 722.00/5–757. Secret. Drafted by Davis; initialed by Rubottom, indicating his approval.

[2] In despatch 602 from Quito, April 30, the Embassy stated the following about Ecuador's economic situation: "The Ponce Administration has been more successful than anyone thought possible in meeting, or deferring, the fiscal problem. This success is due partly to improved tax collection procedures, partly to austerity in Government expenditures, and partly to the Government's failure or refusal to make prompt payment on its due and past due bills. This program has naturally put a strain on the economy of the country and on the Government's popularity, and President Ponce and his advisers have felt for some time that a program of essential public works is advisable in order to counteract the adverse effects of the austerity program. Since Ecuador is in no position to finance a public works program, outside financial assistance must be obtained if the work is to be done; outside assistance is also desired because of the possibility it offers for some fiscal relief, through the possible shifting of certain budget items to the new public works program." (*Ibid.*, 822.10/4–3057)

Chiriboga indicating that he wishes to declare the Czechoslovakian representatives persona non grata and close this Legation, but he recognizes that in view of the economic relations with Czechoslovakia and the offers of financial assistance received from that country such a move would be politically dangerous for him at this time. He did not feel able to take such a step unless he could be sure of U.S. support. Ecuador has recently sought U.S. aid in various ways and particularly in the form of a 3-year PL 480 agreement, which request was, however, turned down for reasons which were entirely understandable. Financial aid is of the utmost importance just now and the President had sent Dr. Chiriboga a list of projects in which financial assistance might be granted, possibly through the Export-Import Bank. The Ambassador stated that the total list amounted to some $16 million but he would suggest particularly the items covering a packing house for Guayaquil, agricultural machinery, silos and irrigation, amounting to $3 or $4 million. The Guayaquil project is particularly important he said, as people are starving and this is an area where it is necessary to strengthen the President's hand against Guevara Moreno. Aid of the sort requested by the President was very essential, particularly if he were to take such a politically dangerous step as the elimination of Czech influence. Mr. Rubottom replied that he would like to refer to these two problems separately. He realized that the step of breaking relations with Czechoslovakia was a delicate one and that any such decision must be made by the Ecuadoran Government and he hoped strongly that it would be made as a matter of principle. He recognized that from the point of view of Ecuador's own welfare such financial or economic benefits as Czechoslovakia might offer would not be of real value to Ecuador.

Turning to the economic problem, Mr. Rubottom said that during the past six months or so he had given more thought to Ecuador's economic and financial situation than to that of any other country. This might not be evident from the ways in which we had been able to aid Ecuador, but he did feel that the $2 million Smathers amendment loan[3] was of importance to that country. We would be very glad to give the most careful study to this list of projects in the hope that there might be some way in which we could be of assistance. At this point Mr. Rubottom said he wondered whether the Ambassador felt that Ecuadoran relations with the Export-Import Bank were good at the present time. The Ambassador replied that within the past few days he had had a conversation with Mr. Waugh and he felt that relations were very satisfactory. Dr. Chiriboga referred to the Jones Construction Company problem and said that he had suggested arbitration as the most effective way to settle the difference of opinion with respect to the quality of highway construction performed by this company in Ecuador.[4] Mr. Rubottom expressed pleasure at the Ambassador's statement that relations appeared to be good and said that he was sure that the only problem had been one of administrative difficulties. He asked whether the Ambassador had discussed these new proposals with the Bank and as Dr. Chiriboga stated that he had not, it was suggested that they be presented in detail as projects for the Bank to study.

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[3] Senator George A. Smathers (D–Fla.) offered an amendment to the Mutual Security Act of 1955 which authorized an increase in development assistance funds for several Latin American countries. For text of the Mutual Security Act of 1955, see 69 Stat. 283.

Mr. Rubottom asked whether the Department had received any word with respect to these new proposals and Mr. Davis replied that we had just received a report from Ambassador Ravndal transmitting a list which was evidently similar to the one Dr. Chiriboga was discussing and which had been handed to Ambassador Ravndal by the Foreign Minister.[5] Mr. Davis added that this was merely a list without details. At Mr. Rubottom's suggestion Ambassador Chiriboga said that he would discuss the proposals directly with the Eximbank and if the Bank is willing to consider these projects, he will obtain detailed information. Mr. Rubottom stated that he would be glad to take a sounding with the Eximbank and let Ambassador Chiriboga know of the results. He assured the Ambassador that he would be glad to give appropriate support to the projects if they turned out to be sound and feasible. Chiriboga expressed his appreciation and said he was certain the result would be favorable with the Department's support.

Returning to the matter of breaking relations with Czechoslovakia, the Ambassador said that while there was no question as to what President Ponce would wish to do, it is also clear that with the backing of the U.S. he could do so safely, whereas without that backing it would be extremely dangerous. Mr. Rubottom again emphasized that although he appreciated this problem, he felt that it was extremely important to act on principle in a matter of this sort.[6]

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[4] In a memorandum to Bernbaum, dated April 10, George A. Blowers, a director of the Export-Import Bank, stated that the Bank believed that the J.A. Jones Construction Company was not responsible for rainy season damage sustained by the Quevedo–Manta Highway which it had completed in Ecuador. Blowers stated that the Bank had offered to increase its loan to Ecuador by $250,000, "to permit the final payment to the contractor when a mutually satisfactory acceptance and release had been concluded." (Department of State, Central Files, 822.2612/10–457) According to a memorandum of conversation, June 4, by John M. Perry, Officer in Charge of Ecuadoran Affairs, Chiriboga stated in part that, "The roads constructed by Jones were faulty and his Government had, therefore, proposed that Jones should pay 75% of the bill and Ecuador would pay the balance." (*Ibid.*, 822.311/6–457)

[5] Despatch 600 of April 26, 1957 from Quito transmits this list given to Ambassador Ravndal on April 26 by the Foreign Minister as an Aide-Mémoire. Ambassador Ravndal notes that the Foreign Minister, in handing him this document "did not even mention the Ponce Administration's projected actions against the Czech nationals here", which made the Ambassador feel that this action would be taken without any strings attached. [Footnote in the source text. Despatch 600 is *ibid.*, 822.10/4–2657.]

Ambassador Chiriboga stated that he was considering making a visit to Ecuador within the next few weeks to discuss these problems with the President, but that probably Mr. Bernbaum would arrive in Quito before the Ambassador and he hoped that he would take this opportunity to discuss them with him.

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[6] In a letter to Ravndal dated May 13, Rubottom wrote: "The memorandum of my conversation on May 7 with Ambassador Chiriboga scarcely reflects the tone which I used in replying to his somewhat preposterous suggestion that Ecuador would be willing to consider breaking relations with Czechoslovakia provided the United States would make some additional Export-Import Bank loans to his country." (*Ibid.*, Rubottom Files: Lot 59 D 573, Ecuador) In a letter dated May 17, Ravndal replied: "I have the definite impression that the Ponce Administration will move against the Czechs as soon as it feels politically strong enough to do so, regardless of whether or not the United States gives Ecuador further financial help." Ravndal suggested further that Chiriboga was acting on his own in this matter. (*Ibid.*) In a letter to Ravndal, June 3, Rubottom wrote that it appeared that the Ecuadoran Ambassador enjoyed the confidence of his government and was not acting on his own. (*Ibid.*)

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489. Memorandum From the President of the Export-Import Bank (Waugh) to the Director of the Office of South American Affairs (Bernbaum)[1]

Washington, July 30, 1957.

SUBJECT

Ecuadoran Relations with the Export-Import Bank

Thank you for your memorandum of July 27th reporting on your conversation with Ambassador Jose R. Chiriboga.[2]

Very frankly, we are not in any way, shape or form attempting to apply political pressure on Ecuador. What we are going to insist on from here on out is that Ecuador follow the fundamental a, b, c rules of good banking practice.

From the record it is clear that loans to Ecuador have been made under pressure from the Ecuadorans and upon promises of performance on their part which have not been kept, and this record goes back some fifteen years.

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[1] Source: Department of State, Central Files, 822.10/7–3057.

[2] Not found in Department of State files.

It is the responsibility of the Eximbank, as I see it, to protect the interests of American businessmen working in that area, at least to see that they get a square deal.

The problem before us is not alone the settlement with the Jones Construction Company, although according to written evidence the project was accepted last fall, as completed in accordance with the terms and specifications of the contract, by engineers as well as a special Ecuadoran commission.

The problem of the Bank with this particular highway goes back fifteen years, and our engineering staff has always been concerned with reference to the question of maintenance. In 1949 the Bank authorized a credit of $1.5 million for highway maintenance. Any settlement with the present contractors would only be temporary relief if this road is not adequately maintained; in other words, the initial investment of some $15 million in this project is in jeopardy.

Then too, the Bank loaned some $14 million for the construction of the water supply systems in Quito and Guayaquil with the agreement that sucres from receipts would be deposited in a special account, as collected. This has not been done in Quito, although the payments of interest and principal have been made when due. We are also deeply concerned over the lack of maintenance of the Quito system.[3]

The Bank has been confronted with additional problems in connection with the completion of the runways at both the Quito and Guayaquil airports as well as the construction of the airport buildings in both places. You know, of course, we have had to call in the surety company and are trying to work out those complicated problems.

For numerous reasons, and not limited in any way to the Jones matter, we feel that we should move very slowly in implementing any further credits to Ecuador.

This memorandum is not intended as a reflection on the present President or the Ecuadoran officials here negotiating at this time. It is not sufficient, however, from our standpoint, to merely brush aside the unresolved problems by saying they were inherited from the previous regime. Incidentally, Ambassador Chiriboga was a member of the previous regime.

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[3] In a memorandum of conversation with Waugh and other officers of the Export-Import Bank, dated July 26, Perry stated: "The observation was made that the Public Works Minister [Sixto Duran Ballen] was expected to request the Bank to extend the $800,000 credit which had been authorized in 1952 for Ambato power facilities and which had actually expired on June 30, 1957 and also to extend the $335,000 credit which had been authorized for the Latacunga water supply system November 1, 1956 and had expired June 30, 1957. The general feeling seemed to be that Ecuador was remiss in not having begun work on these two projects to date and therefore the Bank should not extend the credits which had already expired in both cases." (Department of State, Central Files, 822.10/7–2657)

We sincerely trust that when the Ambassador visits you in the Department this present week you will continue to support the decision that has been taken by the Directors of the Export-Import Bank. In the final analysis, in my opinion, it will be for the benefit of Ecuador to get some of these unresolved problems completed.

SCW

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490. Memorandum of a Conversation, Department of State, Washington, November 25, 1957[1]

SUBJECT

Ecuadoran Ambassador Inquires as to Assistance under Development Loan Fund

PARTICIPANTS

Ambassador Chiriboga of Ecuador
E—Mr. Thomas C. Mann, Assistant Secretary of State
OSA—Mr. John M. Perry

Ambassador Chiriboga said it gave him great personal satisfaction to see Mr. Mann here in Washington. The Ambassador went on to say that he would like to exchange impressions with Mr. Mann, not as an official but as a friend, on the economic situation of Ecuador. He added that he had no instructions from his Government in this regard.

According to Ambassador Chiriboga, the austerity program of President Ponce had resulted in a strengthening of the sucre with relation to the U.S. dollar. From a low of 20 to the dollar last year the sucre had lately regained its normal level of just over 17 to the dollar. Ecuador's exports had also been on the increase lately.

The Ambassador noted that Ecuador had recently received loans from the World Bank for highways and electric power development,[2] and that the bank was currently studying another loan to help finance the construction of a new port at Guayaquil. On the other hand, Ecuador's relations with the Eximbank had been difficult and the Bank had moved very slowly on loan applications made by Ecuador. According to the Ambassador there was a lack of good will on the part of the Eximbank for Ecuador.

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[1] Source: Department of State, Central Files, 822.10/11–2557. Confidential. Drafted by Perry; initialed by Mann, indicating his approval.

[2] The World Bank loaned Ecuador $14.5 million for construction of 4 roads and for a 4-year road maintenance program, and $5 million to help finance the expansion (Continued)

Mr. Mann asked the Ambassador what loan applications Ecuador had pending before the Eximbank at present. The Ambassador replied that there is now pending a relatively small loan application to finance importation of agricultural machinery. The Ambassador said this project was to assist poor farmers to purchase machinery through the Development Bank, and would be similar to a loan the IBRD had previously made to Peru. In response to Mr. Mann's question, the Ambassador stated that outstanding loans to Ecuador amount to about $22 million. (Actually, the Eximbank has authorized credits totaling $38,746,900 for Ecuador, and outstanding loans now amount to $25,400,000). He explained that some credits such as those authorized for electric power in Ambato had lapsed without being used by Ecuador.

Ambassador Chiriboga said that Venezuela had offered financial assistance directly to Ecuador on good terms. Venezuela would lend $15 million to Ecuador. Mr. Mann asked what projects the Venezuelan loan would finance, and the Ambassador replied it would be used for agricultural development in the province of Manabi, development of a small port at Manta, and low-cost housing construction in Quito and Guayaquil.

Referring to Ecuador's preparations for the XI Inter-American Conference, to be held at Quito in 1960, the Ambassador stated that Ecuador would have to purchase much equipment for hotel construction, improvement of streets, public buildings, and facilities, and other things necessary for the Conference. For such purposes Ecuador had recently obtained a loan from a London Bank amounting to about $8 million, at 8 per cent interest, for 20 years. However, this would not be sufficient to cover the construction of a new hotel needed in Quito.

The Ambassador pointed out that the above loans were long-term and would not affect Ecuador's balance of payments.

Although he had no instructions from President Ponce, the Ambassador said, he would like to inquire as to the possibility of Ecuador's obtaining some assistance from the Development Loan

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(Continued)

of facilities to supply electric power to Quito. For further information on these loans, see *International Bank for Reconstruction and Development Thirteenth Annual Report,* 1957–1958, p. 40.

Fund.[3] The Ambassador felt that the tourist trade should be developed in Ecuador through construction of hotels and similar projects, and that this would benefit the country's over-all economy. Mr. Mann asked whether the Ambassador had discussed this with private business interests. The Ambassador said that the matter had been discussed with the Hilton Corporation and others but that nothing concrete had resulted. Mr. Mann inquired whether private capital was available in Ecuador at present for such purposes. Ambassador Chiriboga replied that while there were some 30 million sucres ($2 million dollars at the official rate of exchange) in the Social Security Fund, this money would not be available to finance the construction of a hotel. Mr. Mann observed that the policies governing administration of the Development Loan Fund are not yet clear, that a Loan Fund Committee of three had been set up but the Manager of the Fund had not yet arrived. Mr. Mann suggested, however, that it might be worthwhile for Ambassador Chiriboga to submit a modest project for the Fund's consideration. The proposed project should be not too large because the resources of the Fund were limited. Also the application might be in preliminary form as long as it was clear. When the Ambassador indicated that he had a number of proposals in mind, Mr. Mann suggested that he submit several alternative projects. Mr. Mann made it clear that in making this suggestion he implied no commitment on the part of the Fund to give favorable consideration to the Ecuadoran applications.

With respect to construction of a new hotel in Quito Mr. Mann suggested that a hotel of not more than 200 rooms would be more feasible economically than a very large hotel which would be needed only during the Conference. Ambassador Chiriboga reaffirmed that in his opinion a new hotel would contribute to the development of the tourist industry in Ecuador which would benefit the economy in general.

In conclusion Mr. Mann observed to Ambassador Chiriboga that he hoped Latin American countries would not be disillusioned if they should not receive as much assistance as they might request from the Development Loan Fund. Mr. Mann explained that the amount of money available to the Fund for making loans was limited and that the enormous budgetary burden imposed upon the

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[3] The legislation which established the Development Loan Fund was passed by Congress on August 14 as part of the Mutual Security Act of 1957. For text, see 71 Stat. 355. By Executive Order 10742 of November 29, the President established the Development Loan Committee which was empowered to provide, from the Development Loan Fund, capital for economic development through long-term, low-interest loans that were to be repaid either in local currencies or in dollars. The Deputy Under Secretary of State for Economic Affairs was Chairman of the committee, which had as members the Director of the International Cooperation Administration and the Chairman of the Board of Directors of the Export-Import Bank.

United States as a result of recent technological developments in the Soviet Union would of necessity limit our ability to help our friends as much as we might wish to.

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491. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Assistant Secretary of State for Economic Affairs (Mann)[1]

Washington, December 13, 1957.

SUBJECT

Ecuadoran Request for Assistance Under Development Loan Fund.

As you know, the Government of Ecuador has recently requested assistance under the Development Loan Fund on certain construction projects in preparation for the XI Inter-American Conference to be held at Quito in 1959 or 1960. I refer to Memoranda of Conversation dated November 25,[2] December 4, 6, and 10, copies of which are attached.[3] You will recall that Ambassador Chiriboga first broached the subject, without instructions from his Government, in his conversation with you on November 25. The Ambassador informed Mr. Bernbaum on December 4 that the Minister of Economy, J. Federico Intriago A., was en route to Washington with official instructions to make such a request. At a luncheon given in his honor by the Ambassador on December 6, the Minister told Mr. Bernbaum that Ecuador wished to obtain under the Fund a loan of about $3.5 million, broken down approximately as follows: $2 million for construction of a 250-300 room hotel, $1 million for construction of a Legislative Palace and $.4 or .5 million for expansion of radio transmission facilities, purchase of translation equipment, etc., and salaries of foreign technicians. The Ambassador stated that he was requesting more detailed data and specific figures from his Government. The Ecuadoran Government would take special measures to provide the sucre equivalent of some $3 million for local currency expenses.

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[1] Source: Department of State, Central Files, 822.10/12–1357. Confidential. Initialed by Rubottom, indicating his approval.

[2] *Supra.*

[3] Not attached to the source text and not printed. (Department of State, Central Files, 822.10/12–457, 822.10/12–657, and 822.10/12–1057, respectively)

Ambassador Chiriboga and Minister Intriago explained that Ecuador had been negotiating to obtain from the Shaw Bank of London a loan of $7 million at 9-½ percent interest for a term of 12 years. However, the promoters of the loan (a group of Italians we understood from the IBRD) were demanding excessive conditions, and the IBRD had advised Ecuador of its concern that this might strain her credit position to the point where the Bank would be reluctant to grant a loan now being studied for the Guayaquil new port project. The Bank had suggested instead that Ecuador might obtain assistance from the United States Government. Also, there has been an informal suggestion at the Staff level of the IBRD that it would welcome the participation of the Development Loan Fund in the Guayaquil port project, the IBRD to loan some $11 million and the Fund an additional $4 or $5 million.

In requesting assistance under the Fund, Ambassador Chiriboga stressed that the proposed new hotel would promote development of tourism which would in turn benefit the overall economy of Ecuador. The Ambassador also made the point that it had been said when the Fund was established that it might be used not only for economic development but for social projects.

With respect to the Ecuadoran request for assistance from the Fund on the Conference preparations, we recommend that the Fund consider granting a loan of approximately $2 million to cover foreign currency requirements for the construction of a hotel at Quito. We would also recommend that favorable consideration be given to the tentative suggestion of the IBRD staff that the Fund participate with the Bank in assisting in the Guayaquil port project. We would, therefore, appreciate it if you would, upon receipt of formal applications from Ecuador, be prepared to recommend that Mr. Dillon support the above projects.

PARAGUAY

UNITED STATES RELATIONS WITH PARAGUAY[1]

492. Memorandum of a Conversation, Department of State, Washington, May 26, 1955[2]

SUBJECT

Paraguay-Uruguay-Bolivia Relations

PARTICIPANTS

Paraguayan Ambassador Enciso-Velloso
Paraguayan First Secretary da Silva
Assistant Secretary Holland
OSA—L.D. Watrous

Ambassador Enciso called on Mr. Holland and told the latter that he had been instructed by his Government to inform the Department of Paraguay's desire for closer economic and cultural relations among Paraguay, Uruguay, and Bolivia. He said he thought the Department might already have heard of a move in this direction, and was told that this was the case.[3] The Ambassador then asked Mr. Holland what he thought of the idea. Mr. Holland replied that, naturally, we welcomed greater closeness in the "family."

(*Comment:* From either unwillingness or ignorance, Enciso did not go into any details of the proposed entente. Nor did he mention its possible political implication.)

The Ambassador philosophized a bit concerning Paraguay's geographical position and the freedom of the Paraguayan Government from pressures tending to draw it into the orbits of its larger neighbors.

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[1] For previous documentation, see *Foreign Relations,* 1952–1954, volume IV, pp. 1467 ff.

[2] Source: Department of State, Central Files, 720.00/5–2655. Secret. Drafted by Watrous, Officer in Charge of River Plate Affairs.

[3] Earlier that day, the Department had received, via air pouch, despatch 295 from Asunción, dated March 25, in which Ambassador Ageton reported that the Paraguayan Foreign Minister, Hipolito Sanchez Quell, was engaged in secret negotiations with Bolivian and Uruguayan diplomatic representatives over closer economic ties. Ageton suggested that the negotiations might, "precipitate a serious shake-up in the Paraguayan Government, since the leftist and pro-Argentine wing of the Colorado Party, particularly Epifanio Mendez Fleitas and Tomás Romero Pereira, may regard this action as anti-Argentine and use it as a pretext for forcing a change in the Cabinet, particularly the dropping of present Foreign Minister Sanchez, who has no strong following, either political or military." (*Ibid.,* 734.00/3–2555)

(*Comment:* The realities of Paraguayan geography are evident enough. It is not so clear why Enciso felt he had to deny the existence in Paraguay of pro-Argentine and pro-Brazilian factions—unless it was in recognition of the fact that he is known to belong to the former.)

Ambassador Enciso expressed his gratitude for the waterworks loan,[4] after which he and Mr. Holland exchanged generalized remarks on the Inter-American system and 20th century capitalism.

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[4] On September 2, 1954, the Export-Import Bank approved a credit of up to $7.2 million to assist Paraguay in financing the purchase of U.S. services and equipment necessary for the installation of a central water supply system in Asunción. See Export-Import Bank of Washington, *Nineteenth Semiannual Report to Congress for the Period July-December 1954* (Washington, 1955), pp. 13–14.

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493. Editorial Note

Negotiations between the United States and Paraguay regarding the extension of military mission agreements were begun in late 1953 and continued intermittently through 1954 and 1955. An agreement extending and amending the Army Mission agreement of December 10, 1943 (57 Stat. 1184), as extended, was effected by an exchange of notes at Asunción on July 22, 1955, and entered into force on the same date. An agreement extending and amending the Air Force Mission agreement of October 27, 1943 (57 Stat. 1100), as extended, was also effected by an exchange of notes at Asunción on July 22, 1955, and entered into force on the same date. Documentation on the negotiations is in Department of State, Central File 734.58.

494. Despatch From the Chargé in Paraguay (Wardlaw) to the Department of State[1]

No. 84 *Asuncion, September 1, 1955.*

SUBJECT

The Stroessner Administration: An Estimate of its Stability

President Stroessner ended his first year in office on August 15 apparently in at least as strong a position as he had enjoyed at any time since coming to power. He has preponderant backing from the military, which has benefitted from substantial pay raises, promotions, and Stroessner's interest in advancing its professional status, evinced most spectacularly in the acquisition for the Armed Forces of numerous planes. He has also the formal, and in instances, the enthusiastic, backing of the Colorado Party, with which he has been at pains publicly to identify himself, and to most of whose objectives in the political sphere he has been amenable. The Administration's success in negotiating economic agreements with Bolivia and Uruguay, in obtaining Brazilian cooperation in the building of roads, and in procuring foreign financing for important public works projects (Asunción waterworks, airport reconstruction, road-building, improvement of riverine transport) have been definite assets to its public relations position and should become more so as these projects are implemented.

A substantial part, perhaps a majority, of the Paraguayan people are, to be sure, opposed to, or discontented with the Stroessner administration: the opposition Liberal and Febrerista political parties, excluded from participation in the country's political life; Catholic elements, aroused principally because of the Administration's subservience to Peron in the Argentine state–church controversy; business, commercial and agricultural interests, resentful of the Government's restrictive and politically motivated economic policies; and labor, restive over food scarcities and the high cost of living. These groups, however, appear to have neither the capability nor the disposition to contest seriously the Administration's tenure. Nor has the small Communist Party been able to capitalize significantly on current dissatisfactions.

Despite the apparent present security of the Stroessner Administration there exists a serious potential threat to its stability in the basic rivalry and tensions between its military and civilian components and in the conflict between the current ruling element and the dissident factions of the Colorado Party. In both these areas of dissension, Epifanio Mendez Fleitas—President of the Central Bank, a leading figure in the Colorado Party Junta, and an ardent Argentinophile—is a principal focus of controversy. On his intentions and actions political developments in the immediate future may largely depend.

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[1] Source: Department of State, Central Files, 734.00/9–155. Confidential.

The rivalry between the Colorado Party and the professional military is principally over the exercise of political power. The Colorado Party seeks to eliminate or neutralize the military as an independent political force, to subordinate it to the Party's will, and to decrease the participation of military men in the Administration. Various military leaders have revealed a similarly aggressive intent vis-à-vis the civilian Colorados, feeling that the armed forces, as the major factor in Stroessner's advent to power, should have greater representation in the Government. By and large, however, the military has been on the defensive, its aims being to preserve its professional status and its present political prerogatives.

. . . .

Paralleling the conflict between military and civilian elements is a multi-lateral rivalry between various elements of the Colorado Party: the currently dominant group of "Democrats" responsive mainly to Epifanio Méndez Fleitas and Minister of Interior Tomás Romero Pereira; the Chavista "Democrats," followers of ex-President Federico Chaves, overthrown in early 1954; the Guión Rojo (Red Hyphen), followers of ex-President Natalicio Gonzales; and the "Unionistas," of whom Dr. Felipe Benigno Molas López and Eulogio Estigarribia are the principal leaders. Basically these groups differ little in principles and program and are mainly representative of the personal ambitions of individual políticos. In general, however, the Guión Rojo has a larger proportion of professional men than the other Colorado groups, and appears to be more conservative.

Méndez Fleitas and Romero Pereira, working in close cooperation, have dominated the Colorado Party Junta throughout the Stroessner Administration, and Méndez, in particular, the stronger of the two, has steadily increased his control, at the expense of the Party's dissident elements. The virtual exclusion of these elements from participation in Party or governmental affairs led to several abortive plots during Stroessner's first year in office, aimed principally at Méndez, although the position of President Stroessner probably also was at stake. The Government and the Colorado Party Junta responded to these conspiracies with effective political reprisals, and Méndez became even more intransigent in his refusal to cooperate with opposition Colorado groups.

In recent months Méndez, reversing his political strategy, has shown a conciliatory attitude toward dissident groups. He appears now to be seeking an alliance with the Guiones, in particular, and with some Chavista and Unionist elements. Méndez' current promotion of party unity may be an effort to compensate for recent political changes in Argentina, which have weakened or threatened to weaken Argentina as a source of support for his political position.[2] His changed attitude may also reflect increased appreciation of the danger with which he might be confronted by the military and which party unity might serve to minimize. Whether Méndez will succeed in attracting the support of other Colorado Party groups is questionable. In any case, the conversations which have been going on for some time with regard to party unification have resulted for the time being in a diminution of intra-party tensions.

The position of President Stroessner is affected significantly by the dissension among his supporters. The rivalry between the military and the Colorado Party in particular has been of serious concern to him. On the one hand, he needs military support to remain in office. On the other hand, he has felt that civilian support is necessary for the formulation and the implementation of a constructive governmental program, without which his tenure, sooner or later, also might be jeopardized. An additional motive for collaboration with civilian elements, and in particular with Central Bank President Méndez Fleitas, is the opportunity for easy financial gain which such collaboration reportedly has provided him. Accordingly, Stroessner has sought to follow a policy of compromise which, while not fully pleasing to either element, would stop short of bringing dissatisfaction in either case to a critical point. At the same time, he has sought to safeguard his position by isolating the high professional army officers who have been most resentful of his collaboration with the Colorados, and particularly with Méndez Fleitas. This effort is particularly obvious in his careful personal cultivation of officers of junior grades.

Intra-Colorado Party rivalries have had less impact on the stability of Stroessner's position, but the President appears nevertheless to have taken an interest in the party's internal policy. In general he appears to favor a closing of Colorado Party ranks, presumably on the theory that a broadening of the Colorado Party Junta's political base would make available to the Government additional political and administrative talent as well as reduce the possibility of conspiracies organized by dissatisfied elements.

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[2] Méndez' reversal of political strategy occurred shortly after the June 16 revolt in Buenos Aires and a later "personal visit" to Perón in Buenos Aires. [Footnote in the source text.]

As to future political developments, the outlook appears to be one of continued stability of the Stroessner regime as long as the present balance between the military and Colorado Party is maintained. Trouble is most likely to develop should Méndez become impatient of his present position and make a bid to increase his power. There is no indication that Méndez contemplates such a move.

Andrew B. Wardlaw

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495. Instruction From the Acting Secretary of State to the Embassy in Paraguay[1]

A–29 *Washington, October 11, 1955.*

SUBJECT

Interest of Paraguayan Government in Bilateral Military Assistance Agreement with the United States

In its despatch No. 204 of January 21, 1955,[2] the Embassy reported conversations that had been held with the Under Secretary for Foreign Affairs[3] at his request on a possible bilateral military assistance agreement[4] between the United States and Paraguay. The interest of the Paraguayan Government in a military assistance agreement was brought to the attention of the Department of Defense which, for the Embassy's information, has now informed the Department that "there is no foreseeable military requirement for an engineer battalion or other type military units from Paraguay for participation in hemisphere defense tasks".[5]

The Embassy in its discretion may wish to tell the appropriate Paraguayan officials that Paraguay's interest in participating in the grant Military Assistance Program has been given very careful consideration by the Department and the Department of Defense, and that while we appreciate the utility to Paraguay of an engineer battalion, we regret that it is not possible to accede to Paraguay's request. Under the General Military Plan of the Inter-American Defense Board,[6] the United States has assumed primary responsibility for the defense of the Caribbean–Panama–Galapagos sector, and our grant Military Assistance Program is designed to develop units to be used, if necessary, outside their national territories to assist in the defense of this sector. Current United States plans for the defense of this sector do not contemplate the commitment of a unit, or units, from Paraguay. Paraguay would, however, have a responsibility under the General Military Plan for participating in the defense of the South Atlantic sector. A further reason for not meeting the Paraguayan request is that because of higher priority of requirements in other areas of the world, the United States does not have funds available for a grant Military Assistance Program in Paraguay.

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[1] Source: Department of State, Central Files, 734.5–MSP/1–2155. Secret. Drafted by Sayre and approved by Holland.

[2] Not printed. (*Ibid.*)

[3] Luis Ramirez Boettner.

[4] Paraguay was seeking assistance under terms of the Mutual Security Act of 1954 (P.L. 665); for text, see 68 Stat. 832.

[5] Further analysis of the U.S. position regarding the possibility of a bilateral military assistance agreement is in despatch 149 from Asunción, November 4. (Department of State, Central Files, 734.5–MSP/11–455)

The Paraguayan Government continues, of course, to be eligible for reimbursable assistance, as the Embassy notes in its despatch, and the U.S. will continue to render appropriate assistance with respect to requests from the Paraguayan Government to purchase military equipment from the Department of Defense.

Murphy

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[6] For information on the plan, see the editorial note, *Foreign Relations*, 1951, vol. II, p. 1028.

496. Memorandum of a Conversation, Department of State, Washington, November 18, 1955[1]

SUBJECT

(1) Paraguayan Purchase of 20 AT.6/G planes
(2) UN Membership
(3) Paraguayan Desire for Grant Aid

PARTICIPANTS

Ambassador Enciso-Velloso of Paraguay
Mr. Cecil B. Lyon, Deputy Assistant Secretary
Mr. Persio da Silva, First Secretary, Embassy of Paraguay
Commander Lopez Escobar, Naval Attaché, Embassy of Paraguay
Mr. Robert M. Sayre, AR
Mr. John K. Havemeyer, OSA

The Ambassador said that he had sent the Department a note on November 15, No. DE/35/55,[2] and presented Mr. Lyon with a copy. The Ambassador stated that his government wished to purchase 20 AT.6/G planes from surplus, including 10 replacement motors and other parts for maintenance for three years. The Ambassador said that this was to be a direct purchase and not on a three-year credit.

Mr. Lyon replied that the Department would look sympathetically upon the request and would take as quick action as possible.[3]

Ambassador Enciso then asked for clarification of the US position with respect to new memberships in the United Nations. Mr. Lyon gave the Ambassador the information provided in the Department's Circular Telegrams No. 322 of November 13[4] and Unnumbered Circular Telegram of November 15—(sent 7:57 p.m.).[5] The Ambassador replied that the Paraguayan Delegation in the UN in New York looked to the US Delegation for guidance in maintaining the Paraguayan position identical to that of the US.

Ambassador Enciso then pointed out Paraguay's desire for grant aid similar to that now being received by Bolivia. Mr. Lyon explained that the circumstances in Paraguay fortunately were not the same as they are in Bolivia, and that the political situation in Bolivia had improved because of the US grant aid. The Ambassador then said he thought Bolivia would be building up its military as a result of US assistance in Bolivia. Mr. Lyon replied that with Brazil and Argentina on the other two borders with Paraguay he did not see any danger to Paraguay. Furthermore, the aid to Bolivia was not of a military character and should not create any fear in Paraguay from Bolivian aggression.

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[1] Source: Department of State, Central Files, 734.56/11–1855. Limited Official Use. Drafted by Havemeyer.

[2] The Paraguayan Embassy's note requested information regarding the possibility of obtaining airplanes and spare parts. (*Ibid.*, 734.56/11–1555)

[3] The Department of Defense responded affirmatively to the Paraguayan request for purchase of the planes, but the Government of Paraguay decided not to purchase them at that time. Information relating to the purchase request is *ibid.*, 734.5–MSP.

[4] Circular telegram 322 contained the verbatim text of the speech on U.N. membership, which the U.S. Representative at the United Nations, Henry Cabot Lodge, Jr., delivered before the General Assembly on September 22, 1955. (*Ibid.*, 310.2/11–1355)

[5] Reference is to circular telegram 327, which reported U.S. opposition to the admission of Outer Mongolia. (*Ibid.*, 310.2/11–1555)

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497. Memorandum of a Conversation Between President Stroessner and the First Secretary of the Embassy in Paraguay (Wardlaw), Asunción, November 28, 1955[1]

During the graduation of the Cadets of the Liceo Militar on November 27, President Stroessner called me over to sit next to him on the stand. He opened the conversation by saying that he regretted very much that Assistant Secretary Holland had not been able to come to Paraguay to see at first hand the conditions in the country.[2] He said that each country has its special problems which must be seen to be understood, and he added that Paraguay has been systematically misrepresented abroad recently. I said that I was sure that Mr. Holland regretted that he could not visit Paraguay at this time but that he intended to come here on a later trip. The President mentioned Mr. Holland's presence in Bolivia, and I observed that because of the very delicate internal situation in that country our Government had found it necessary to give special assistance to the Bolivian Government. He remarked that relations between Bolivia and Paraguay were excellent.

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[1] Source: Department of State, Central Files, 734.00/11–2855. Confidential. Drafted by Wardlaw. Sent to the Department in despatch 185 from Asunción, November 28. (*Ibid.*)

[2] Holland visited five Latin American countries (Colombia, Peru, Bolivia, Chile, and Argentina) between November 17 and December 4, 1955. He originally contemplated visiting all the South American countries at that time and asked the foreign offices of all for their reactions to the proposal. Paraguayan reaction was very favorable. Holland was unable to visit the others, and although he scheduled a tour of the remainder for January 29–February 12, 1956, the trip had to be postponed. Documentation pertaining to this subject is *ibid.*, 110.5–HO.

The President then expressed regret that the trip to Ingavi[3] had fallen through. He asserted that actually there are no political prisoners in camps or prisons in the Chaco or other outlying areas except seven or eight Communists in Bahia Negra. I said that I had already formed the same general impression. . . . Regarding the trip to the Chaco, I suggested as my personal opinion that the best way to arrange for an inspection of the area would be for the Paraguayan Embassies in Buenos Aires and elsewhere to approach press representatives directly and to keep the matter strictly between the Paraguayan Government and the press.

Although the President did not comment on my suggestion he launched into criticism of the foreign press, particularly for its publication of charges that the Paraguayan Government's invitation to foreign Ambassadors to visit these camps constituted promotion by the Colorado Government of foreign intervention in the internal affairs of Paraguay. He said that these charges were instigated by Liberal and Communist exiles and pointed out that the Liberals, while criticizing this invitation as the promotion of foreign intervention in the internal affairs of the country, had supported the revolution of 1947[4] which was under Communist leadership, and he asked what more a party could do to promote foreign intervention than to assist Communists in their efforts to gain power. The President said that his Government was not seeking to promote intervention, but merely to see that correct information about conditions in Paraguay was sent abroad.

The President repeated several times his concern about the bad name his Government was receiving abroad through the activities of the Liberal exiles. The President said that he was not concerned about the Government's security, for internally the Government was firmly in control. He said that his Government was not a dictatorship but was based on the will of the people and he cited the great applause with which he is greeted on public appearances as evidence that he has wide popular support. He said that he had been urged repeatedly to establish a military dictatorship through a coup d'état but he had always rejected that idea because he wishes to respect the institutions of government. He repeated that his Government was not a dictatorship and declared that he wanted to see an opposition in the country, but it would have to be a responsible opposition. I said that probably the best course of the Government in the face of this criticism would be to carry forward its program of positive reforms.

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[3] On November 18, Paraguayan Foreign Minister Sanchez called in representatives of the Governments of the United States, Uruguay, Paraguay, and Brazil and expressed displeasure at the foreign press attitude toward Paraguay, particularly the practice of continually referring to the President as a dictator and repeating charges that there were political concentration camps in the Chaco region. He invited the four Chiefs of Mission, their military attachés, and some news reporters to make an inspection tour of the Chaco by plane. (*Ibid.*, 911.6234/11–1855)

[4] Reference is to the rebellion which overthrew General Higinio Morínigo, President of Paraguay, 1940–1948.

Shifting to Argentina, he said that Paraguay was not now and never had been a satellite of Argentina or any other country. He repeated this thought several times. He said that the Government of Paraguay had maintained good relations with the Government of Argentina under Peron and that he saw no reason why such relations should not be continued under the present Government. He said that while General Lonardi was in power, the Argentine Government had sent a civilian and a military agent to discuss with him relations between the two countries and that they had held very satisfactory conversations. While he said several times that he saw no obstacle in the way of good relations with the present Argentine Government, in the course of this conversation he showed serious concern that the new Argentine Government might not be favorably inclined towards the Government of Paraguay. He mentioned the rumor that the Argentine Government would supply the Liberals with arms to overthrow his Government, but asserted that the Government of Argentina had too many internal problems to become involved in such matters.

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498. Telegram From the First Secretary of the Embassy in Paraguay (Wardlaw) to the Department of State[1]

Asunción, February 9, 1956—4 p.m.

165. Reference Embassy despatch 284, January 27;[2] Embtel 162, February 8.[3] IMF mission before departure February 8 presented

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[1] Source: Department of State, Central Files, 411.3441/2–956. Confidential; Limited Distribution.

[2] Despatch 284 from Asunción, January 27, reported that if the proposed IMF recommendation on exchange control revisions were accepted by the Paraguayan Government, it would "make it rough going for at least several months and it remains to be seen whether the government has the courage to take such a forward step." (*Ibid.*, 411.3441/1–2756)

[3] Telegram 162 from Asunción reported that the Embassy discounted the rumors that Gustavo F. Storm, President of the Central Bank, was to be replaced. (*Ibid.*, 834.14/2–856)

preliminary recommendations to Bank which were subsequently approved by Councils of State and Economic Coordination. Storm advises recommended program will be announced February 28 and made effective March 1.[4] Full mission report not yet available and must be approved by Fund in Washington. Summary recommendations follow:

(1) Severe credit restrictions all fronts to lessen inflationary pressures is heart of program. Public works program and investment government pension and social security funds to be limited.

(2) Export and import exchange rates structure completely overhauled. Basic imports 60 guaranies to dollar, all other 86. No imports without official exchange. No preferential treatment wheat. All exports 60 with Aforo system revised to bring prices in line world market. This major shift from former policy using exports to subsidize imports should encourage exports and those invisible moving through official market to be at rate of 60 buying and selling (others including capital transfers to be at free market rate). Preferential rates trade agreements countries abolished.

(3) Free exchange market to operate basis supply and demand.

(4) Imports to be licensed quantitatively as to categories and luxury items pared to minimum.

(5) Price and wage policy envisages retention controls but internal price structure to reflect full impact new export import rates. Minimum wage increases delayed six months but then will offset increased costs basic items.

(6) New revenue sources to be sought probably new taxes and strict collection on present taxes.

(7) Par value guarani with IMF to be changed to 60.

Comment: Program tough but realistic. Everything depends administration which if orderly and firm should increase production and slow inflation. Results stabilization probably not to be apparent for six months and first 60 days will be critical. Criticism expected from all quarters except government and exporters.

Wardlaw

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[4] The mission was to study a proposed broad monetary stabilization program, to suggest changes in the par value of the guarani, and to make recommendations to simplify Paraguay's complex multiple rate system for imports and exports. Additional documentation on the subject is *ibid.*, 398.13 and 834.10. For further information, see International Monetary Fund, *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1956* (Washington, 1956), p. 84.

499. Editorial Note

On May 2, the United States and Paraguay signed at Asunción an agreement authorizing the sale of surplus agricultural commodities, through private United States traders, totaling $2.6 million. These commodities were made available under Title I of Public Law 480, the Agricultural Trade Development and Assistance Act of 1954, as amended. (68 Stat. 454; 69 Stat. 44). The agreement was signed by Foreign Minister Quell and Ambassador Ageton. Additional documentation relating to the agreement is in Department of State, Central File 411.3441.

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500. Memorandum of a Conversation, Embassy Residence, Panama City, July 23, 1956[1]

PRESENT

The President[2]	President Alfredo Stroessner
The Secretary of State	Under Secy. of Foreign Affairs?
Dr. Milton Eisenhower	
Asst. Secy. Holland	
Mr. Bernbaum	
Lt. Col. Walters	

President Stroessner opened the conversation by saying he was happy to be received by the President and delighted to see him in good health despite his recent operation. He said he would not take up the President's time with a long detailed statement of Paraguayan problems. He would present a memorandum which would set out the principal points regarding Paraguay's position in national affairs.[3]

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[1] Source: Eisenhower Library, Whitman File, International File. Secret. No drafting officer is indicated on the source text.

[2] Eisenhower was in Panama City for the Meeting of the Presidents of the American Republics, July 21–22, 1956. For documentation on this subject, see vol. VI, Documents 109 ff.

[3] The document, entitled "Memorandum from the President of the Republic of Paraguay, Major General Alfredo Stroessner to the President of the United States of America, General of the Army Dwight D. Eisenhower, Confirming the Conversation Held in the City of Panama," described Paraguay's position in the world political situation as "one of open and decided support of the United States of America" in international relations and in its struggle against international Communism. It stated that the way to combat Communism was "by solving the problems and raising the standards of living of the peoples." It explained the efforts of Paraguay to attain its

He would be grateful if the President could read this at his convenience. He was also submitting a copy to Assistant Secretary Holland, who was very familiar with Paraguayan problems.

He said that his country was now seeking the conquests of peace; it had fought two terrible wars, one lasting five years against Argentina and Uruguay[4] and the Chaco War of 1931–1935. He said that in the Peace Treaty which put an end to the Chaco War, it had been indicated that Bolivia and Paraguay would be treated on a basis of parity. He added smilingly that now being a good neighbor of Bolivia they had some idea of the aid Bolivia was receiving. President Eisenhower then mentioned that Bolivia had several acute problems. President Stroessner acknowledged this but said he would still like to see parity in assistance, as Paraguay had several special problems also. She was an entirely land-locked country without access to the sea or coastline. In reply to a question by the President, he said that his country had a river port on the River Paraguay but this was not the same as a seaport and that the lack of a merchant marine was a great handicap to Paraguay.

President Stroessner said that he hoped there would not be a Third World War, but if there were, Paraguay would do her share anywhere in the world, contributing as always her men and spirit. Paraguay, said President Stroessner, has two great resources—the Paraguayans and the land. He wished to add one more word and that was to assure the President that Paraguay was one-hundred per cent anti-communist and would continue to be so. He said that in respect of parity with Bolivia, he wished the President to know that he was speaking as a younger brother to an older one.

Finally, President Stroessner said he wished to express his thanks for the technical assistance program with which Mr. Holland was very familiar. This assistance had been of great help in the fields of health, education and agriculture. He likewise wished to express his gratitude for the splendid work done by the U.S. Army and Air Force missions in Paraguay.

The President said he was grateful to President Stroessner for this expression, and the two Presidents then went to the door of the Embassy Residence where pictures were taken, following which President Stroessner took leave of the President and departed.

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economic independence, and described the Paraguayan economic development program. (Eisenhower Library, Whitman File, International File)

[4] Reference is to the War of the Triple Alliance of 1865–1870 between Paraguay and the allied states of Brazil, Argentina, and Uruguay.

501. Editorial Note

On March 22, 1957, President Eisenhower requested the United States Tariff Commission to make an investigation of the effects of imports of tung oil on the domestic price-support program for tung nuts and tung oil. For text of the President's letter to the Chairman of the Tariff Commission, see Department of State *Bulletin,* April 8, 1957, page 585. The investigation was to be made pursuant to section 22 of the Agricultural Adjustment Act, which authorized limitations on imports when imports were interfering with or threatened to interfere with domestic price-support or marketing programs. For text of the Act, see 48 Stat. 31 or 7 U.S.C. 624. Paraguay and Argentina were major exporters of the crop. Informal discussions ensued between representatives of the Department of State and the Governments of Paraguay and of Argentina over the possibility of a voluntary agreement. Documentation concerning this subject is in Department of State, Central File 411.000.

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502. Telegram From the Secretary of State to the Embassy in Bolivia[1]

Washington, August 8, 1957—7:24 p.m.

79. For Rubottom[2] from Snow. Tung oil proposal[3] passed Paraguayan Embassy today. Paraguay refused it stating political reasons prohibited voluntary undertaking this nature by GOP. Suggested counter proposal which might be acceptable GOP. This would permit entry this crop year ending October 30 of approximately 8 million pounds Paraguayan oil and acceptance 25 million pound annual quota provided Paraguayan share 33%. On both counts this out of question. Paraguayan historical share U.S. imports period October 1, 1951 to September 30, 1956 slightly more [than] 11%.

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[1] Source: Department of State, Central Files, 411.006/8–857. Official Use Only; Priority. Drafted by Vaky and initialed by Snow. Repeated to Buenos Aires and Asunción.

[2] Rubottom was en route to the Economic Conference of the Organization of American States, held August 14–September 4, in Buenos Aires.

[3] The U.S. Tariff Commission was proposing a three-cents-per-pound import fee, rather than a quota system, for tung oil. (Department of State, Central Files, 411.006/6–1157)

U.S. proposal would have divided 25 million pounds 22.325 million Argentina and 2.675 million Paraguay. This division based on relative percentages 1954 voluntary agreements.

Paraguayan refusal makes voluntary agreement impossible and unilateral action inevitable. Discussed situation with Hauge and we believe worthwhile for you discuss this GOP effort obtain acceptance U.S. proposal. Please advise for Hauge's information if you willing undertake this in Asuncion.[4]

Dulles

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[4] Despatch 85 from La Paz, August 9, reported that Rubottom would discuss the tung oil problem when he visited Asunción.

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503. Telegram From the Counselor of the Embassy in Paraguay (Hilton) to the Department of State[1]

Asunción, August 11, 1957—11 p.m.

53. Department for Snow from Rubottom; Rio de Janeiro for Doctor Gabriel Hauge care of Secretary Anderson[2] from Rubottom. Plumbed depth tung oil problem with Foreign Minister and Deputy Foreign Minister in presence four other cabinet ministers and leading exporter who is American. They recognize US problem but insist grave political consequences would result if GOP assumed onus for reduced exports before own people.

To be acceptable GOP would expect plan to contain separate Paraguayan quota. Their strong feelings about being included in global quota with Argentina understandable even if unrealistic. Believe GOP's point valid that suggested export figures should have been calculated on last two years shipments instead of five since contraband to Argentina largely stopped two years ago.

If unilateral action our part can be further delayed until I can consult with Hauge Buenos Aires it is conceivable some agreement with Paraguay still could be reached. On basis 25,000,000 pounds annual imports GOP would insist on 15% to 20% as Paraguay's separate quota.

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[1] Source: Department of State, Central Files, 411.006/8–1157. Confidential; Niact. Repeated to Rio de Janeiro.

[2] Hauge and Secretary of the Treasury Anderson stopped in Rio de Janeiro en route to the Buenos Aires Economic Conference.

Hilton

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504. Despatch From the Chargé in Paraguay (Carter) to the Department of State[1]

No. 54

Asunción, August 20, 1957.

SUBJECT

Visit of Assistant Secretary Rubottom to Asuncion

Assistant Secretary Roy R. Rubottom, Jr., visited Asuncion August 10–12 on the invitation of the Paraguayan Government, stopping here en route to the economic conference in Buenos Aires. During his visit, the Assistant Secretary, who lived in Asuncion twelve years ago as Naval Attaché assigned to the American Embassy, was accorded honors reserved for the most distinguished visitors who come to this capital. He received an especially warm welcome from his old friends, among whom are scores of the principal officials of the Government and leading members of the business community.

Mr. Rubottom arrived by air Saturday, August 10, at 2:55 pm and departed Monday, August 12 at 6:30 am by air for Montevideo. Despite a crowded schedule, the Assistant Secretary had the opportunity for lengthy discussions on important Paraguayan-U.S. topics with the President and the Foreign Minister, and in addition held conversations with many other Ministers and officials of the Government. He also talked with influential American and Paraguayan businessmen.

During a one-hour private conversation with the President, he heard General Stroessner lay emphasis on the friendly sentiment felt by the Paraguayan Government and people for the United States, with assurances from the General of his own desire to see that this friendship was strengthened even further in the future. The President then brought up several items concerning which he said Paraguay needed assistance in the shape of loans from the U.S. or support from the U.S. for the loans. Among these matters were the completion of the construction of the Trans-Chaco Road to the

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[1] Source: Department of State, Central Files, 110.15–RU/3–2057. Confidential.

Bolivian border; the completion and asphalting of the highway from Coronel Oviedo to Puerto Presidente Stroessner on the Alta Paraná; the acquisition of 600 tractors to be used in agricultural development and assorted other items for this purpose. In addition, he mentioned the need for new PL 480 financial assistance involving 10 million dollars in a triangular deal with a European country to enable the Paraguayan Government to finance part of the construction of the proposed Trans-Chaco oil pipeline and petroleum refinery.

The Assistant Secretary assured the President of the warm friendliness of the United States toward Paraguay and recalled to the President that he, twelve years before becoming Assistant Secretary, had lived in Asunción as Naval Attaché here and that one of his children was born in Asunción. While stating that he had a particularly sympathetic interest in Paraguay's problems, the Assistant Secretary gave the President no encouragement regarding additional loans at this time.

Before ending the cordial interview, the President stressed his personal conviction that the present Argentine Government is opposed to him personally and to his policies. He was emphatic in voicing his suspicions of officials of the Buenos Aires Government. (See Embdespatch 16, July 12)[2]

Mr. Rubottom shortly afterward had a two-hour conversation with the Foreign Minister, Dr. Raúl Sapena Pastor. The Foreign Minister brought up the same economic subjects as had the President, but went into them in somewhat more detail. At the conclusion of the talk, the Foreign Minister handed a memorandum on these matters to Mr. Rubottom (translation attached[3]). It will be noted that the total amount desired is more than $23 million.

The memorandum requests the U.S. to arrange $10 million for the financing of an oil pipeline to be constructed from the Bolivian border to Asunción and a simple refinery to be built near Asunción by means of performing a "triangular" operation with foreign currency counterpart funds derived from the sale of U.S. surplus agricultural products in one or more foreign countries other than Paraguay. While no particular country was indicated, presumably the Paraguayan Government had France in mind, since the contract for construction of the pipeline and refinery facilities has just been awarded to a French firm (see Embdespatch 43, August 5).[4] It also asks the U.S. Government to promote the construction and operation in Paraguay of an aircraft maintenance base for the overhauling of engines and instruments, without giving an estimate of the cost. Beyond these two items, the U.S. is urged to support Paraguayan applications to the Export-Import Bank for $7 million for road construction; to the International Bank for Reconstruction and Development of $5 million for grain storage facilities, sugar refining equipment, agricultural tractors and implements and maintenance shops for them; and to the International Finance Corporation for $1 million to recondition a Portland cement plant, and for constructing plants to can fruits and vegetables, pasteurize milk, produce starch from mandioca root, and process wood to produce plywood and pulp for papermaking.

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[2] Despatch 16 from Asunción enclosed a memorandum of a conversation between Carter, Stroessner, and Paraguayan Foreign Minister Sapena Pastor, in which Stroessner discussed what he considered to be a campaign by the Argentine Government to discredit him and force him to leave office in order to make Paraguay subservient to the wishes of Argentina. (*Ibid.*, 634.35/7–1257)

[3] Not printed.

The Foreign Minister prefaced his remarks with an exposition of Paraguay's long isolation and the need for the nation to take every means within its power to get in step with the economic progress that is stirring other countries of the hemisphere.

He referred to what he called the "four-power agreement" to help the rehabilitation and development of both Bolivia and Paraguay following the Chaco War. He complained that there was a great disparity in the amount of funds made available to Bolivia and to Paraguay by the U.S. The Assistant Secretary pointed out at some length the difference of the situation in the two countries. In Bolivia, he stated, the U.S. was engaged in an effort to prevent an economic collapse that could have the gravest political consequences affecting the entire continent. The U.S., he said, was acting in the interest of Paraguay and all other American nations in this instance. The Foreign Minister then agreed that the situations were very different indeed, and devoted most of the remainder of his remarks to presenting an economic justification, in general terms, of the projects mentioned in the memorandum which he had prepared.

He stated that the list had been drawn up with great care and pointed out that no funds were being requested for the improvement or expansion of the river barge line and merchant fleet. This, he said, was because arrangements were being completed with Venezuela for a loan of up to $20 million which would include ample support for river transportation purposes.

The Assistant Secretary advised the Foreign Minister that it would be extremely doubtful that any "triangular" arrangement could be worked out involving PL 480 funds. He assured the Foreign Minister of his Government's continued deep interest in the progress of Paraguay and promised that the most sympathetic consideration would be given to the needs of Paraguay. The Assistant Secretary encouraged the Foreign Minister to direct his thoughts to the practical benefits that would accrue to Paraguay in the near future through the exploitation of the resources of private enterprise. The Foreign Minister stated that he was thinking along those lines in some respects already and said that insofar as the aircraft maintenance establishment mentioned in the memorandum was concerned, he thought that a commercial firm could set up such an enterprise and that his Government would give it every support. He added, however, that he thought that the project could be facilitated by the assistance of the U.S. Department of Defense.

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[4] Despatch 43 contained a report on various petroleum developments. (Department of State, Central Files, 834.2553/8–557)

The Foreign Minister said that he would be deeply appreciative if the proposals could be studied carefully and if assistance could be provided as requested. The conversation ended with the Assistant Secretary cautioning Dr. Sapena Pastor about being too hopeful but assured him again that projects submitted in detailed form would receive friendly and careful attention.

In addition to his almost constant contact with government officials, the Assistant Secretary held a press conference (see clippings attached[5]) and had an opportunity to meet many acquaintances of a non-official nature at social functions.

The Assistant Secretary's visit was in the opinion of the Embassy most worthwhile in every respect. It helped point up the interest of the United States in Paraguay at a time when much publicity was being given to the forthcoming arrival of numerous important foreign guests for the celebration of the 420th anniversary of the City of Asunción, chief among them the President of Chile. It also helped bring into sharper focus Paraguay's present aspirations, particularly in the economic field, and the assistance it would like to receive from the United States in this regard.

Albert E. Carter

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[5] The clippings and an enclosed copy of the speech given by the Paraguayan Foreign Minister at a dinner honoring Rubottom are not printed.

505. Telegram From the Secretary of State to the Embassy in Paraguay[1]

Washington, September 6, 1957—6:52 p.m.

55. Proclamation restricting tung oil imports pursuant Section 22 Agricultural Adjustment Act expected be issued Monday September 9. Proclamation establishes global annual quota 26 million pounds divided Argentina 22,100,000 pounds, Paraguay 2,964,000 pounds and others 936,000 pounds. This division based upon exporters' participation last four crop years ending October 31, 1956.

Restrictions cover next three crop years ending October 31, 1960, but first quota period extends from date of proclamation to October 31, 1958. During first quota period imports during approximately five months ending January 31, 1958, limited to monthly rate of 1.154 million pounds, divided 980,900 for Argentina 131,556 Paraguay and 41,544 others. In each of subsequent two crop years imports during first quarter limited to one fourth annual quota divided 5,525,000 pounds Argentina, 741,000 pounds Paraguay and 234,000 others.

Proclamation declares that imposition quotas shown by Tariff Commission investigation as necessary order that entry tung oil will not render or tend render ineffective price support program or reduce substantially amount of products processed in the US from tung nuts or tung oil.

Interested host Governments should not be advised before Monday morning September 9. Text of proclamation and press release will be air pouched.[2]

Dulles

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[1] Source: Department of State, Central Files, 411.006/9–657. Official Use Only; Priority. Drafted by Vaky and initialed by Snow. Also sent to Buenos Aires, Rio de Janiero, and London.

[2] For text of Proclamation 3200, see 22 *Fed. Reg.* 7265.

506. Memorandum of a Conversation, Ministry of Foreign Affairs, Asunción, November 14, 1957[1]

PRESENT

Foreign Minister Sapena Pastor
Ambassador Walter C. Ploesser[2]
A.E. Carter, First Secretary

The Foreign Minister, who had asked the Ambassador to come to the Ministry, began by expressing his own and his government's thanks for the care and attention being given Dr. Martin Cuevas, Minister of Agriculture, in the United States, where Dr. Cuevas was recently flown for treatment.

The Minister then said he had an "unpleasant" topic to take up and expressed his regret that he had to deal with a matter of this nature the first time he asked the Ambassador to come to the Foreign Office. He proceeded to refer to the U.S. action limiting tung imports—or Paraguayan exports, as he put it—and said this was working a great hardship in Paraguay. He said that practically all of Paraguay's tung comes from the Encarnación region in the southern part of the country. He said the people there devote approximately 90 per cent of their time to the production of tung and that any reduction in exports can only result in hardship for them. The Minister said that one of the reasons Paraguay had developed its tung production to the present point was because it had been encouraged to do so by Point IV.[3] The Minister said that one of the most unfortunate aspects of the U.S. action was that while it had allowed Argentina to continue to export to the United States pretty much the same as always, it had cut Paraguay back to a "third" of its former exports. Dr. Sapena said he recognized the reasons back of the U.S. action and assumed it would be very hard to do anything at this time, but he appealed to the Ambassador to help Paraguay in this regard. The Minister said he knew that this was a difficult thing to ask and said U.S. assistance might be in the form of helping Paraguay find another market for this product.

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[1] Source: Department of State, Central Files 411.3441/11-2157. Confidential. Drafted by Carter. Transmitted to the Department in despatch 164 from Asunción, November 21. (*Ibid.*)

[2] Ploesser was appointed Ambassador to Paraguay on August 5, 1957; he presented his credentials on November 6.

[3] President Harry S. Truman, in his inaugural address on January 20, 1949, announced his "program for peace and freedom." The fourth point of that program suggested that the United States "must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas." For text of Truman's inaugural speech, see *Public Papers of the Presidents of the United States: Harry S. Truman, 1949* (Washington, 1964), pp. 112–116.

The Ambassador told the Minister he appreciated the problem outlined but pointed out that in the circumstances it would be exceedingly difficult to do anything about it. He recalled that at the time Paraguay had been encouraged to produce tung, U.S. producers had also been urged to do the same because more tung was needed at that time. Since then, the Ambassador explained, the picture has changed. In many of its uses, he said, tung has been replaced by other products, among them recently developed synthetics. The Ambassador gave the Minister no encouragement that anything could be done, but assured him the Embassy would study the matter.

Dr. Sapena said he was preparing a note on the subject which would shortly be delivered to the Embassy,[4] but said he wished to have this prior discussion with the Ambassador in order to explain more fully his views. The Ambassador promised that the note would receive prompt attention.[5]

The Minister then referred to the Embassy's recent note inviting the Government of Paraguay to submit a request for a new PL–480 loan.[6] He said that during his own recent visit to Washington, Assistant Secretary Rubottom had indicated Paraguay could probably expect in the neighborhood of $3,000,000 on such a loan. Dr. Sapena said, however, that Paraguay really needs $5,000,000. He referred to the tung situation and told the Ambassador that he realized fully what a difficult thing it would be to do anything in that regard, but said that on the other hand he would appreciate the Ambassador's support in getting $2,000,000 in PL–480 funds over and above the amount which, according to the Minister, Mr. Rubottom had indicated Paraguay might be able to obtain. Dr. Sapena said Paraguay would like to use the additional funds, if available, in road construction.

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[4] On November 18, Sub-Secretary Ramirez Boettner delivered to the Embassy a memorandum concerning tung oil. It was transmitted to the Department in despatch 167 from Asunción, December 2. (Department of State, Central Files, 411.3441/12–257)

[5] Instruction A–51, January 16, 1958, requested the Embassy to reply to the memorandum, stating in part, "The determination to limit imports of tung oil into the United States was made only after a careful consideration of all factors bearing on the situation including those set forth in the Foreign Ministry Note of November 18, 1957 and a finding that imports in excess of the specified quotas would materially interfere with the tung-oil price support program of the United States." (*Ibid.*, 411.3441/1–1658)

[6] Reference is to a note of October 30. (*Ibid.*, 411.3441/10–3057)

Dr. Sapena said a PL–480 note asking for a $5,000,000 loan would be delivered to the Embassy shortly.[7] The Ambassador assured the Minister it would be studied carefully.

The Minister turned to the question of the oil pipeline and the triangular PL–480 deal under which Paraguay had hoped it could be financed. He said the U.S. view in this regard was clear[8] and that Paraguay is now completely dropping this approach. In this connection, however, he said that both the Fives–Lille people and Williams Brothers had, during the course of their negotiations, indicated that financing could be arranged through a triangular PL–480 deal. The Minister explained that the French company had been given the contract not just because its bid was lower, but more importantly because of the very substantial saving to the Government of Paraguay in the manner in which the pipe for the line was to have been brought into the country. The Williams bid included delivery of the pipe only to Buenos Aires or Montevideo, the remainder of the shipment to be for the account of the Government of Paraguay, whereas the Fives–Lille bid included complete delivery.

The Minister then said he would inform the Ambassador of something in the strictest confidence,—a matter, he emphasized, known at present only to the President and himself.

Noting that the Fives–Lille people had been able to do nothing about their contract, and that it will therefore expire the 30th of this month, the Minister informed the Ambassador that immediately following, probably in early December, the Government of Paraguay, in cooperation with Williams Brothers and Pure Oil, will form a company for the purpose of constructing the pipeline. Dr. Sapena said that no more than 10 to 20 per cent of the company's stock will be held by the Paraguayan Government and that the rest will be held by Pure Oil and Williams.

The Ambassador thanked the Minister for this interesting news and emphasized the advantages of having the pipeline developed by private enterprise rather than by the Government. The Ambassador pointed out that private enterprise was more likely to build what is needed, not only for the present, but for the foreseeable future as well, and would do so at no cost to the Government; also that the private enterprise operation would in addition provide revenue for the Government. The Ambassador said there would be no advantage politically and certainly none economically in Government ownership of the pipeline. Dr. Sapena agreed and said the only reason the

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[7] The Paraguayan memorandum requesting the loan was handed to the Ambassador by the Foreign Minister on December 10, and was transmitted to the Department in despatch 193 from Asunción, December 12. (*Ibid.*, 411.3441/12–1257)

[8] The United States opposed the plan. Further documentation relating to this matter is *ibid.*, 411.3441/10–457.

Government planned to be in the new operation at all was to satisfy the elements in the Government, particularly the Minister of Hacienda,[9] who wanted a pipeline entirely owned by the Government. The Minister clearly stated that he personally had never been in favor of a Government-owned pipeline.

The Ambassador brought up in a general way the difficulties Paraguay has encountered in connection with its river transportation system and stated that he thought private enterprise could do a great deal to help Paraguay solve its problems in this regard. The Minister said he considered this problem different in that one here was dealing with the virtual monopoly of another Government, that of Argentina, and said he thought only a government-operated enterprise could achieve the desired results.

In reply to a question from the Ambassador regarding the nature of restrictions on Paraguay's river transportation, Dr. Sapena said there are no treaty restrictions, but that in practice Paraguay suffers from various controls which Argentina has imposed that run up the cost of river transportation. The Minister mentioned in this connection the number of pilots boats are required to carry, the maintenance of harbor facilities, dredging and so on.

Dr. Sapena informed the Ambassador "confidentially" that Paraguay is now actively trying to do something about the foregoing and stated that his Government is at present engaged in negotiating a new treaty with Argentina on the river and its traffic.

The Ambassador emphasized that in his opinion the full utilization of Paraguay's river system was of paramount importance to the natural economic development of the country and the Foreign Minister stated that he was in full agreement with this point of view.

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[9] Cesár Barrientos.

PERU

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND PERU[1]

507. Editorial Note

Airgram 108 to Peru, January 28, 1955, authorized Ambassador Harold H. Tittmann, Jr., to open negotiations with the Government of Peru for the sale of United States agricultural commodities under Title I of Public Law 480, the Agricultural Trade Development and Assistance Act of 1954. Enclosed was a draft agreement to be used in the negotiations. (Department of State, Central Files, 411.2341/1–2855) In telegram 248 from Lima, February 8, the Embassy reported that the agreement had been signed as submitted. (*Ibid.*, 411.2341/2–855) For text of the agreement signed on February 7, and entered into force on the same date, see 6 UST 563.

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 1491 ff.

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508. Editorial Note

In late January 1955, the Peruvian Government detained two United States flag fishing vessels, *Tony B* and *Western Clipper*, in the Port of Callao pending payment of fines for alleged illegal fishing in Peruvian territorial waters. In telegram 165, January 27, the Department instructed the Embassy in Lima to present a note, text provided in the telegram, to the Peruvian Government stating that the ships' logs disclosed that they had fished no closer than 3½ miles to the Peruvian shore and therefore in waters the United States regarded as the high seas. The note also contained reference to the "conflicting views" of the two governments with respect to the question of what constituted territorial waters, and the statement that the "United States believes that enforcement action should not be taken before every effort has been made to resolve the matter, preferably by a mutually satisfactory solution." (Department of State, Central Files, 611.236/1–2755) Despatch 377 from Lima, January 29, reported that the note had been delivered at noon the previous day to the Peruvian Minister of Foreign Affairs, David Aguilar Cornejo. (*Ibid.*, 611.236/1–2955)

Despatch 397 from Lima, February 12, transmitted the text and an English translation of a Peruvian note, dated February 9, in reply to the United States note of January 28. The Peruvian note stated that the incident involving the *Tony B* and *Western Clipper* was now considered closed because the captains of the ships had paid their fines and departed, signifying to the Peruvians that they accepted the decision of the Government of Peru. With respect to possible discussions between the two governments, the note stated that the Foreign Minister thought it was first necessary to determine a common ground for any discussions. Peru considered the 3-mile limit obsolete and could not consent to limit its sovereignty to that area because of the importance of the fishing industry to Peru's economy. The final section of the note stated that no more incidents would occur if United States flag vessels would request permission to fish within the Peruvian Maritime Zone of 200 miles, as they did in the case of Ecuador. According to the note, "boats of all flags can navigate freely in the Maritime Zone of Peru. It is only for the purpose of fishing that any boat should have permission, in accordance with our law." (*Ibid.*, 611.236/2–1255)

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509. Memorandum on the Substance of Discussions at a Department of State–Joint Chiefs of Staff Meeting, the Pentagon, February 25, 1955, 11:30 a.m.[1]

[Here follows a list of those present (17), including 10 representatives from the Department of Defense, 5 from the Department of State, and 2 from the Central Intelligence Agency.]

[Here follows discussion of items I, II, and III: "NNSC", "Schedule of Distinguished Visitors from Foreign Countries where MDAP Programs are in Process or Planned", and "Defense Views on Latin American Military Programs".]

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[1] Source: Department of State, State–JCS Meetings: Lot 61 D 417. Top Secret. A cover sheet bears the following notation: "State Draft. Not cleared with any of participants."

IV Interception and Detention of Fishing Vessels by Peru

Mr. Murphy asked Admiral Radford if he had anything to tell State on this subject. Admiral Radford replied that all he wanted to say was that the JCS recognizes the three-mile limit.

Ambassador Dreier gave a general résumé of this subject. He pointed out that the problem with Peru reflected an extreme manifestation of a world-wide tendency for States to extend their territorial waters into the high seas, particularly with reference to fisheries. The problem had two phases: the bilateral phase of our immediate controversy with Peru, and the multilateral phase involving a consideration of the question of fisheries, territorial waters and related problems in various meetings of the United Nations and the Organization of American States during the next two years. Specific bilateral disputes had to be handled with an eye to developments in the multilateral consideration of the general problem.

We have protested all Peruvian actions in contravention of the freedom of the seas beyond the three-mile limit and have been looking for a good case to try to take to the International Court. The case brought up by the Navy Department, which refers to the two vessels *Tony B* and *Western Star,*[2] was the first involving American flag vessels, the Onassis case having involved Panamanian flag vessels.[3] More recently, 11 American flag vessels were intercepted 20 miles from the Peruvian coast and brought into court, some of them being forced to pay a tax on their fish.[4] We believe that this incident gives us a good basis on which to propose to Peru that the matter be taken to the International Court of Justice. If Peru agrees, we are confident they will lose the case and if they refuse to go into the Court, it will indicate to other countries the weakness of their juridical position.

Admiral Davis asked if it were not possible to separate the question of fishery rights from the question of territorial waters. Ambassador Dreier said that we were attempting to do that by proposing fishery conservation agreements which would recognize the interest of the other countries in preserving fishery resources off their coast, without asserting sovereignty over those waters. We intend to make such a proposal to Peru again, once we have made clear our firm determination to oppose their assertions of sovereignty.

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[2] Reference is to the *Western Clipper.*

[3] In November 1954, five ships of the Onassis whaling fleet, registered under the Panamanian flag, were seized and fined $3 million for illegal whaling in Peruvian waters. The fine was paid, with reservation of the right to appeal. Documentation concerning this matter is in Department of State, Central File 397.022–IA.

[4] Details of this incident were provided in telegram 258 from Lima, February 18. It reported that a Peruvian destroyer had come upon a fleet of more than 20 U.S. fishing vessels and asked them to show their licenses. Originally 11 were detained, but 3 with expired licenses were released. The remaining 8 were brought to the port of Talara, where they were charged with fishing in Peruvian waters without licenses. (*Ibid.*, 611.236/2–1855) Telegram 261 from Lima, February 21, reported that all U.S. fishing vessels had finally been released. The last 5 were assessed a total of approximately $2,000 "export duty", which they paid; but the Embassy understood that they planned to file a protest. (*Ibid.*, 611.236.2–2155)

Ambassador Dreier referred to the Department's conversation with Ambassador Berckemeyer of Peru on February 24[5] when he had been told in very plain language how seriously the invasion of the freedom of the seas by the Peruvian Government affected basic interests of the United States including our security interests. One objective in proposing a referral of the matter to the International Court was to make clear to Peru and other countries that we were not limiting ourselves to verbal protests but were determined to defend our rights in this matter.

Admiral Radford referred to the old days when it was possible to send a couple of destroyers down to patrol the area, and suggested he supposed we could still do that any time we wanted.

The Admiral also referred to the fact that the U.S. had fostered the development of a tuna packing industry in Peru and this might possibly have a bearing on the program.

Mr. Murphy asked if there were any specific naval comments on this question. Admiral Duncan[6] stated that the Navy's position was that there should be no move on the part of the U.S. Government which would lend any validity to the arrogation by Peru of international waters off its coast.

In further discussion, Ambassador Dreier referred to the series of protests which we had lodged with the Latin American countries concerned as a matter of record, and added that we had advised private citizens to refrain from acts that might imply acceptance of Peruvian and other similar claims.

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[5] No record of this conversation with Ambassador Fernando Berckemeyer has been found in Department of State files.

[6] Admiral Donald B. Duncan, Vice Chief of Naval Operations.

Mr. Murphy stressed that the Department takes a serious view of the question, and is upholding our traditional position on freedom of the seas.[7]

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[7] Telegram 200 to Lima, February 28, transmitted a note and an aide-mémoire for the Embassy to present to the Peruvian Foreign Minister. The note protested Peruvian violations of international law in intercepting U.S. fishing vessels on the high seas and levying export duties on their cargoes, and requested certified copies of all official documents relating to recent incidents. The telegram also informed the Embassy that Rollin S. Atwood had talked with the Peruvian Ambassador, who later spoke to the Foreign Minister by telephone. The Foreign Minister reportedly had asked Ambassador Berckemeyer to assure the United States of "full cooperation," and gave assurances that Peru had no other motives besides preserving the riches of the sea when it set up its 200-mile maritime zone. (Department of State, Central Files, 611.236/2–2855) Telegram 281 from Lima, March 6, reported that the Ambassador handed the note and aide-mémoire to the Foreign Minister on March 5. (*Ibid.*, 611.236/3–655)

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510. Memorandum of a Conversation, Department of State, Washington, March 10, 1955[1]

SUBJECT

Proposed Fishery Conservation Agreement with Peru

PARTICIPANTS

Ambassador Berckemeyer, Embassy of Peru
Mr. Pizarro, Minister, Counselor of Embassy, Peruvian Embassy
OSA—Mr. Atwood
L/ARA—Miss Whiteman
U/FW—Mr. Taylor
AR—Mr. Bowdler
OSA—Mr. McGinnis

Ambassador Berckemeyer called at the Department at 4:15 p.m. at Mr. Atwood's request.

Mr. Atwood referred to his previous conversation with Ambassador Berckemeyer in which he expressed our serious concern over Peru's territorial waters claims and mentioned the latter's subsequent telephone conversation with the Peruvian Foreign Minister.[2] Mr. Atwood said that it was his understanding that the Foreign Minister had stated that Peru's sole motive in establishing the maritime zone was for the purpose of conserving the marine riches off Peru's coast.

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[1] Source: Department of State, Central Files, 611.236/3–1055. Confidential. Drafted by McGinnis.

[2] See footnote 7, *supra*.

Ambassador Berckemeyer confirmed this. Mr. Atwood then said that after careful study of the matter we wished to propose a discussion with Peru of a possible joint agreement for the conservation of fisheries off the coast of Peru. He said that our thoughts in the matter had been set forth in a brief informal statement that had been drawn up. He then handed the Ambassador copies of the attached statement.[3] Mr. Atwood emphasized, after the Ambassador and Mr. Pizarro had read the statement, that any agreement that might be concluded would avoid any acceptance of sovereignty over a 200-mile maritime zone nor would it refer to the three-mile limit. Mr. Atwood said that he earnestly hoped that the proposal might be acceptable to Peru as a basis for discussions. He concluded by saying that the officers present, experts in their field, would be glad to answer any specific questions that the Ambassador might have.

The Ambassador thanked Mr. Atwood for this information and said that it would be promptly transmitted to the Peruvian Government. He said that he was certain that Peru's establishment of a maritime zone and its recent actions with respect to fishing off her coast were motivated solely by a desire to preserve its fishery resources and obtain maximum benefit from them. He then observed that Peru was associated with Ecuador and Chile in agreements regarding the preservation of their respective fishery resources and indicated that this fact would have to be taken into consideration with regard to the negotiation of any conservation agreement. Mr. Atwood observed that since tuna and perhaps other species moved from one area to another, it might be desirable to work out conservation arrangements which would include other interested countries.

Mr. Atwood stated that he also wished to inform the Ambassador that the U.S. Government had under consideration the desirability of reaching agreement with Peru for the submission to the International Court of Justice of a case involving the territorial waters issue for the purpose of obtaining a judicial decision in the matter. The Ambassador made no comment upon this.

Ambassador Berckemeyer related that yesterday he had received information from Peru by telephone to the effect that Peru had issued licenses to four U.S. flag fishing vessels and that this indicated that the immediate difficulties between U.S. tuna clippers and Peruvian authorities were apparently being worked out. He said that he believed that new licensing regulations had been worked out between representatives of private U.S. fishing interests and Peruvian officials. In response to a question the Ambassador said that the licenses he had mentioned were not to be confused with licenses regularly taken out by U.S. fishing vessels which ordinarily fish under contract with Peruvian companies established on the mainland. He stated, somewhat uncertainly, that regulations have long been in effect governing foreign fishing in waters off Peru's coast.[4]

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[3] Not printed. The statement proposed discussions looking toward a joint agreement containing provisions for regulating tuna fishing, providing for joint enforcement and for the settlement of differences through appropriate international procedure.

Before the Ambassador's departure Mr. Atwood assured him of our sincere desire to work out an agreement along the lines proposed which would not alter the juridical position of either country. The Ambassador said that he thought that an amicable solution to our mutual problems could be reached.

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[4] Despatch 430 from Lima, March 12, transmitted the text of Peruvian Ministerial Resolution 478, March 9, giving permission to 4 U.S. fishing vessels to fish in Peru's 200-mile zone. The preamble of the resolution stated that while final regulations were being drawn up, "the authorities can proceed by granting special authorizations to those who plainly recognize the sovereignty of the country over its maritime zone and desire to carry on legitimate operations in observance of the Peruvian laws and regulations". (Department of State, Central Files, 611.236/3–1255) Airgram 139 to Lima, March 21, instructed the Embassy to present a note to the Peruvian Government, reiterating the nonrecognition of the U.S. Government of the Peruvian claim to territorial waters in excess of 3 miles. (*Ibid.*)

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511. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Assistant Secretary of Defense for International Security Affairs (Hensel)[1]

Washington, March 22, 1955.

DEAR STRUVE: I refer to our conversation of March 21, 1955[2] relating to the financing by this Government of the construction of two submarines proposed to be purchased in this country by the Government of Peru. While the Department of State has not received a formal request from the Government of Peru for credit assistance in the purchase of these submarines, it is understood that information has reached the Department of Defense that the Peruvian Government contemplates the purchase of two submarines from the Electric Boat Company if it can obtain long-term credits from this Government to finance the transaction.

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[1] Source: Department of State, Central Files, 723.5621/3–2255. Confidential. Drafted by McGinnis and Jamison. Cleared in the Office of the Special Assistant for Mutual Security Affairs, the Office of Regional American Affairs, and the Investment and Economic Development Staff.

[2] No record of this conversation has been found in Department of State files.

The issues posed by this suggested financing of the purchase of military equipment on credit terms are of such importance that this Department will not be able to determine its position in the absence of specific information regarding the nature of the transaction, the amount involved, and particularly the credit terms contemplated and the legal authority under which such credit would be granted.

The important considerations bearing upon this case are the following:

(1) The granting of credit for the purchase of military equipment on any basis other than that of three year short-term credit as authorized under Section 106(b) of the Mutual Security Act of 1954[3] would constitute a departure from policy long established and maintained by this Government.

(2) The granting of credit to Peru would immediately raise the question of whether credit would be available to other Latin American countries in amounts adequate to meet needs and desires as worthy of consideration as those of Peru.[4]

The Department will appreciate receiving the information referred to above and the views of the Department of Defense regarding[5] the importance that should be accorded the two considerations last stated.

Sincerely yours,

Henry F. Holland[6]

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[3] For text, see 68 Stat. 832.

[4] In an earlier draft of the letter an additional paragraph appeared here that was deleted in the final version. It reads: "(3) This Government is seriously concerned over the situation created by Peruvian claims to sovereignty over wide areas of the high seas, and particularly the seizure and fining of American flag fishing vessels within the zone claimed by Peru."

[5] This sentence originally ended with the words "regarding this matter." The last two words were struck out and the words as printed here were added.

[6] Printed from a copy which bears this typed signature.

512. Letter From the Assistant Secretary of Defense for International Security Affairs (Hensel) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, April 1, 1955.

DEAR HENRY: I refer to our recent conversation and your letter of 22 March 1955[2] concerning the proposed purchase of two submarines by the Government of Peru on extended terms of repayment.

As you know, information available to this Department has been on an informal basis inasmuch as the Peruvians have utilized a representative of the Electric Boat Company to explore the possibilities of credit in connection with the proposed purchase. This matter and all related information obtained from the Electric Boat Company representative has been discussed between individual members of our respective staffs and at a recent meeting, called for this purpose, of the various interested governmental agencies.

Peru has four submarines which they purchased from the United States during the 1920s. Due to the age of these boats, Peru plans to decommission them in the near future. The two boats purchased last summer, paid for in cash during the period of construction, plus the two submarines they desire to purchase would allow the Peruvians to replace the older boats with modern type subs. As you know, Peru committed their recently purchased submarines to hemisphere defense tasks, and our understanding is that the two additional boats would also be committed to such tasks.

The estimated cost of the two submarines is approximately $15 million. Several financing arrangements have been mentioned which generally involve 6 ½ to 7 year terms with annual payments starting at the end of the second year. The terms of the contract would, of course, be subject to the National Advisory Council's approval.

I am puzzled by the following statement which appeared in your letter: "the granting of credit for the purchase of military equipment on any basis other than the three-year short term credit under Section 106(b) of the Mutual Security Act of 1954 would constitute a departure from a policy long established and maintained by this government." This appears at variance with NSC policy 5432/1,[3] paragraph 20 e, which announced that the United States should facilitate purchase of US equipment (military) by offering

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[1] Source: Department of State, Central Files, 723.5621/4–155. Confidential.

[2] *Supra.*

[3] NSC 5432/1, "United States Objectives and Courses of Action With Respect to Latin America," was approved on September 3, 1954. For text, see *Foreign Relations,* 1952–1954, vol. IV, p. 81.

Latin American countries, among other things, "credit terms including long-term payments."

This policy cannot be effectively implemented under Section 106(b) of the Mutual Security Act of 1954 which limits sales to "in-stock" items held by the Military Services and credit terms to a maximum of three years. However, Section 505 of the Act does provide loan assistance authority under certain conditions for the purchase of military equipment by friendly foreign governments. The contemplated purchase of two submarines by the Peruvians can be authorized under this section of the Act.

It is not the view of this Department that the extension of long-term credit to Peru for the purchase of two submarines immediately necessitates establishing blanket credit authority of any amount to finance purchases by other Latin American countries. This Department intends to consider on a case-by-case basis requests from other Latin American countries, each request to be analyzed on its own merits, including the intended use of the equipment by the recipient country, the quantity, the country's ability to repay, funds available within our government, etc.

I am of the conviction that credit terms to countries with the ability to repay for military equipment which will support US objectives and strengthen hemisphere defense should be encouraged, and this Department will lend its full support to such meritorious requests. Unless we initiate a program for the further implementation of NSC policy, we can expect Latin American countries to look more and more to European sources with the subsequent trend toward European military training and technical advice. In my view, such a trend is in direct contradiction to our national policy.

I urge your favorable consideration in this matter. With your concurrence, I propose to inform the Electric Boat Company to advise the Peruvians to submit a formal request for the purchase of two submarines through diplomatic channels.

Sincerely yours,

Struve Hensel

513. Memorandum of a Conversation, Department of State, Washington, April 8, 1955[1]

SUBJECT

Peruvian Long-Term Credit Purchase of Submarines

PARTICIPANTS

Mr. H. Struve Hensel, Asst. Secretary of Defense for International Security Affairs
Mr. Chas. Sullivan, OSD, Dept. of Defense
ARA—Mr. Holland
E—Mr. Waugh
S/MSA—Mr. Nolting
OFD—Mr. Corbett
AR—Mr. Jamison

The problem under consideration was the proposal that 7-year credit be extended for the purchase by Peru of 2 submarines from the Electric Boat Company, regarding which officials of that company have approached Defense.

Mr. Hensel outlined the point of view of the Defense Department in favor of this transaction, mentioning principally the following points: Defense's concern over extensive purchases of military equipment often on credit terms by Latin American governments from non-U.S. sources which led to the proposal of National Security Council policy of favoring credit which was approved; the JCS have indicated that Peru's acquisition of the submarines will contribute to hemisphere defense; the submarine is a type of military equipment which is least likely to be used for any aggressive purpose; the building and sale of these submarines by a U.S. firm is preferable to similar sale from a European source; the credit would be available under the provision of the present legislation which requires utilization of $200,000,000 of MSP funds for loans. Although he said he did not attribute great importance to this point, Mr. Hensel pointed out that the granting of this loan would help meet the Congressional requirement.

Mr. Holland indicated that while there were obviously disadvantages in following either course, those which led him to the conclusion that the transaction should not be approved were principally the following:

(1) The borrowing capacity of every Latin American country is limited; and the extent to which that borrowing capacity is utilized for the purchase of military equipment reduces in proportion the

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[1] Source: Department of State, Central Files, 723.5621/4–855. Secret. Drafted by Jamison and approved by Holland.

amount which can be used for borrowing for purposes which will contribute to the economic well-being and strength of the country.

(2) The granting of long-term credit to Peru for military purchases in this specific case will inevitably mean that other Latin American governments, many of them in a much less favorable economic position even than Peru, will desire similar credit for military purchases. These requests will be difficult, if not impossible, to refuse, even though in most cases they could not begin to be justified on economic grounds. There exists an inevitable tendency, particularly on the part of the numerous military governments in Latin America, to procure military equipment not for hemisphere defense, but simply because their leaders like to have it around for display purposes and in order to appear strong in relation to their neighbors.

Mr. Holland indicated that while he had definite reservations about the granting of credit of any kind for Latin American purchases of military equipment, he recognized that the three-year credit provision of the law is an accomplished fact which has already been applied in several cases. He was specifically opposed, however, to extending credit terms over longer periods, as in the Peruvian submarine case, because of the economic factors referred to above and the precedent it would establish for other requests, the approval of which would be damaging to the credit positions of governments. Mr. Waugh emphasized the unproductiveness of loans for military equipment, and their undesirability on any economic grounds. On the other hand, Mr. Nolting pointed out that the $200,000,000 loan provision was included in the law by Congress for the purpose of encouraging loan assistance rather than grant assistance to the extent possible, and stated that Congress might well seriously question our refusal to grant credit to Peru at the same time we ask to provide military equipment on a grant basis.

To counter the view that credit granted for submarines would be at the expense of productive purposes, Mr. Sullivan mentioned a provision of Peruvian law under which he said that a specific percentage of receipts is allocated to the Navy for its own purposes. He said that this provision of the law would appear to preclude utilization of such funds for other than Navy purposes and insure that U.S. refusal to authorize building of the submarines would simply mean that they would be bought from a non-U.S. source. Mr. Holland said that he would look into that aspect of the matter.

It was agreed that there exists a fundamental difference of view between State and Defense on this matter and that it should be resolved as quickly as possible. In view of the fact that State's position implied a revision of NSC policy, it was indicated that State is initiating a request for a review of the policy by NSC. Mr. Hensel agreed with this procedure for endeavoring to reach a decision.[2]

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[2] In a brief letter, dated April 13, Hensel informed Holland of his understanding that ARA would seek to have the NSC change the section of NSC 5432/1 dealing with credit purchases of U.S. military equipment. The final paragraph of the letter reads:

"Inasmuch as implementation of the existing NSC policy, which is favored by this Department, involves certain legislative considerations which must be acted upon by Congress this year, it is essential that the matter be resolved immediately. It would be appreciated if you would obtain the necessary decisions within the week in order that appropriate actions may be taken." (Department of State, Central Files, 723.5621/4–1355)

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514. Editorial Note

Following the April 8 meeting with Hensel, a memorandum was drafted in the Bureau of Inter-American Affairs, setting forth recommendations to the National Security Council on the subject of credit for Latin American countries. Copies of the recommendations were sent to S/P, E, and S/MSA. A memorandum from Edward J. Sparks to Robert R. Bowie, dated April 18, asked that ARA be informed as soon as the request for a decision had been forwarded to the NSC, so that a reply could be made to Hensel's letter of April 13. (Department of State, S/P–NSC Files: Lot 61 D 167)

Attached to the April 18 memorandum was a copy of the paper containing ARA's revision of paragraph 20 (e) of NSC 5432/1, which reads as follows: "Seek ultimate military standardization, along U.S. lines, of the organization, training, doctrine, and equipment of Latin American armed forces; countering trends toward the establishment of European military missions in Latin America, or agencies or individuals with a similar function, other than those of the United States; and facilitating the purchase of U.S. equipment by offering Latin American countries the lowest possible prices, more rapid delivery, predelivery financing of long lead-time items and credit limited to a three-year period. The feasibility, if any, of the use of foreign currency or barter arrangements should be explored." (*Ibid.*)

A memorandum from Spencer to Sparks and Jamison, dated April 19, informed them that the Policy Planning Staff had notified him that Frederick E. Nolting, Jr., would not concur in the revision of paragraph 20 (e) because he disagreed with ARA's position. Nolting's office advised Spencer that he disagreed because the Peruvians already had funds earmarked for the submarines and could purchase them from a European country. If they did so, the United States would lose in terms of standardization of arms in Latin America. (*Ibid.*, Central Files, 723.5621/4–1955)

On April 26 Holland sent Under Secretary Hoover a paper prepared by ARA, in consultation with E, similar to the one attached to the April 18 memorandum, explaining ARA's position opposing long-term credit to Latin American countries for the purchase of military equipment. (*Ibid.*, S/S–NSC Files: Lot 63 D 351, NSC 5432 Memoranda) On April 27 Deputy Under Secretary Murphy sent a memorandum to Hoover explaining Hensel's position favoring long-term credit to Peru for the purchase of submarines. He informed Hoover that "Mr. Hensel explained his position as resting squarely on present NSC approved policy relating to credits for Latin America. He said that he stressed this point in his conversation with Mr. Holland and that the latter admitted that his insistence on a credit term of three years was not in accordance with NSC policy and that NSC policy should be changed." (*Ibid.*)

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515. Letter From the Deputy Secretary of Defense (Anderson) to the Under Secretary of State (Hoover)[1]

Washington, 10 May 1955.

DEAR HERB: I refer to our conversation of 5 May concerning the possible purchase of two additional submarines from the United States by the Government of Peru and your request by telephone for some additional background information.

Peru has an extensive history of submarine operation. They initially contracted for two submarines in April of 1924 which included in the contract equipment for the establishment of a small submarine base. The first two submarines were completed and delivered in 1926. The contract was then extended for two additional submarines which were delivered in 1928. These four boats were built by the Electric Boat Company of Groton, Connecticut, and were of the 450 ton R-class submarines. The total cost of these four submarines was approximately $6 million and were financed through arrangements with the Electric Boat Company during the course of construction. The period of payment extended during the course of construction plus several years. The four boats are still operational; however, they are limited to the depth they can dive due to their age. In 1950 Peru contracted with the Electric Boat Company for the overhaul of these submarines and at that time it was estimated by the company officials that the boats had approximately five years of service life before they should be decommissioned for safety reasons. As a matter of interest, Peru utilized these submarines during the last war in the protection of sea lanes along the Peruvian Coast in coordination with our own Navy.

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[1] Source: Department of State, Central Files, 723.5621/5–1055. Confidential.

Looking forward to the eventual replacement of these submarines, the Peruvian Government contracted in July 1951 with the Electric Boat Company for the construction of two new submarines. These two were delivered on 1 March 1954 and 14 June 1954, respectively. They are of about 1,000 ton displacement and have considerable operational capability. In fact, they are approximately two-thirds of the tonnage of our own fleet type submarines. The purchase price of these two submarines was approximately $15 million which the Peruvians paid during the period of construction. The Peruvians then broached the Electric Boat Company about the possibility of purchasing on credit two additional subs to allow them to decommission their old submarines.

It is of interest to note that Peru equipped the two submarines delivered in 1954 with U.S. Navy-type equipment which was not readily available from commercial sources such as periscopes, fire control equipment, etc. This equipment was purchased from the U.S. Navy at a cost of approximately $350,000 per boat.

During the construction period, our Navy and the Electric Boat Company provided training for the submarine crews. Peru is also furnished officer spaces in the regular U.S. submarine school. With this and previous training, the Peruvians have developed considerable proficiency in the operation and maintenance of submarines and have established in Peru a rather complete submarine base, including a small training school.

In the Peruvians' latest approach to the Electric Boat Company for two additional submarines, they indicated a desire to purchase the boats on extended terms of repayment. The company was unable to handle this matter, either through their own resources or through commercial banks, and informally approached the Department of Defense in an attempt to determine if some other means of financing were available. The Electric Boat Company representative was advised that under existing legislation, we could not directly loan money to the Peruvian Navy for the purchase of these subs with [*from*] the Electric Boat Company. It was suggested that the Peruvians' desires be made known to the United States Government through normal diplomatic channels. In this respect, the Peruvians have indicated through the Electric Boat Company representative they do not desire to make a formal request unless there is a reasonable chance of favorable consideration. This entire matter was discussed at a recent interdepartmental conference and was covered in a letter dated 1 April to Mr. Henry Holland of your Department.[2]

The foregoing constitutes the background of the Peruvian acquisition of submarines from United States sources. Any other information you desire about this subject, we will be glad to furnish.

Sincerely yours,

Bob

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[2] Document 512.

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516. Memorandum of a Conversation, Department of State, Washington, May 13, 1955[1]

SUBJECT

Long-Term Credit for Purchase of Submarines by Peru

PARTICIPANTS

U—Acting Secretary of State Herbert Hoover, Jr.
G—Mr. Murphy
E—Mr. Waugh
ARA—Mr. Holland
S/MSA—Mr. Nolting
S/P—Mr. Schwartz
AR—Mr. Jamison

The meeting was called to consider further the question of State Department concurrence in the sale to Peru of two submarines to be constructed by the Electric Boat Company on terms involving U.S. Government credit over a period of approximately seven years. Mr. Hoover referred to a memorandum from Deputy Secretary of Defense Anderson giving the background of consideration of the proposed sale,[2] and said that he was impressed with the degree to which this transaction was part of a planned arrangement worked out over a period of years for helping Peru to provide itself with modern submarines. In addition to points made in previous meetings on this subject, it was stated that the amount of dollars which Peru would devote to this purpose each year would not be great, and that the Defense Department attached considerable importance to maintaining the productive capacity of the Electric Boat Company facilities.

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[1] Source: Department of State, Central Files, 723.5621/5–1355. Confidential. Drafted by Jamison.

[2] No such memorandum has been found in Department of State files; but see Anderson's letter of May 10, *supra*.

Mr. Holland gave his basic reasons for opposing long-term credit for this sale: that long-term credit to Latin American countries for the procurement of military equipment would inevitably decrease the dollar borrowing capacity of these countries for constructive economic development purposes; that because of the Latin American preference for U.S. arms, increasing U.S. sales through long-term credit would bring more arms into the area than would result if long-term credit purchases were made from other than U.S. sources; and that the sale to Peru, which might be more justifiable on economic grounds than similar sales to other governments, would create extremely difficult continuous political and economic problems with other Latin American countries desiring that similar arrangements be made for them.

Mr. Hoover indicated that he believed it would be necessary to concur in the Peruvian transaction. He felt that limitations and conditions could be worked out for handling future requests from other governments which would reduce the disadvantages to which Mr. Holland referred. Mr. Hoover mentioned the interest of European producers in selling military equipment to Latin American countries, perhaps on liberal credit terms, and the interest of the Department of Defense in having Latin American countries supplied with U.S. standard equipment. Conditions to be established should include (1) a limitation on the total amount of dollar credit to be made available to Latin America in any one year, (2) an agreed determination that equipment sold under long-term credit arrangements would be committed by the recipient government to hemisphere defense and (3) a clear-cut definition of procedures to be followed in receiving and acting upon requests for such credit. He requested that a memorandum be prepared covering these points for him to send to Deputy Secretary of Defense Anderson as a basis for dealing with future credit requests.[2]

Mr. Holland stated that he believed it would be desirable for points (1) and (2) to be specified in the legislation and in national security policy. Mr. Nolting pointed out that existing legislation and the drafts forwarded to Congress containing new provisions on long-term credit do not include these limitations. Mr. Hoover said that in the present world situation it seemed better for the legislation to be as flexible as possible, but that policy in implementing the program for Latin America should contain the above limitations.

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[2] A memorandum covering the points mentioned by Acting Secretary Hoover was prepared in ARA and forwarded to Secretary Anderson under cover of a letter from Hoover, dated June 9, 1955; for text of the letter and the attached memorandum, see vol. VI, Document 25.

Mr. Murphy said that he believed the record should be clear that Peru had not directly approached the Department with its request. It was pointed out that the letter from Mr. Hensel to Mr. Holland, raising the question, indicated that the Electric Boat Company had requested that it be authorized to inform the Peruvians that they might request sale of the submarines through diplomatic channels. Mr. Hoover indicated that a letter from Mr. Holland to Mr. Hensel concurring in this request should therefore be sent.[3]

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[3] *Infra.*

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517. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Assistant Secretary of Defense for International Security Affairs (Hensel)[1]

Washington, May 18, 1955.

DEAR MR. HENSEL: I refer to your letters of April 1[2] and April 13[3] and to our several conversations relating to the financing by this Government of the construction of two submarines in this country by the Government of Peru on terms which would permit the estimated total cost of $15 million to be repaid over a six or seven year period. It is understood that the Department of Defense considers the acquisition of these vessels by Peru to be in the interest of hemisphere defense and that their sale will be subject to agreement by Peru to commit them for designated hemisphere defense tasks through amendment of the secret military plan between Peru and the United States.

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[1] Source: Department of State, Central Files, 723.5621/4–1355. Secret. Drafted by Jamison and cleared by S/MSA, OSA, and E. On May 17 a copy was transmitted to Samuel C. Waugh, attached to a memorandum from Jack C. Corbett. The final paragraph of Corbett's memorandum read: "Although the NAC question did not come up specifically in connection with the Peruvian submarines, the phrase was in the Defense Department's letter and Mr. Jamison thought it would be useful to include it in our letter. I see no harm in requiring the Defense Department to submit the terms of the contract to the NAC, although customarily the NAC does not consider loan contracts. However, it will increase our information about this operation somewhat and it may produce some useful discussions in the NAC in connection with military credits in general." (*Ibid.*, 723.5621/5–1755)

[2] Document 512.

[3] See footnote 2, Document 513.

The Department of State concurs in your proposal that the Electric Boat Company be informed that they may advise the Peruvians to submit in accordance with established procedures a formal request to the Department of State for the purchase of two submarines. As stated in your letter of April 1, 1955, it is understood that such terms of contract as may be worked out with the Peruvian Government will be subject to National Advisory Council approval.

In view of the importance of ensuring a coordinated approach to the handling of similar requests from Latin American Governments for the purchase of military equipment on credit terms, a draft statement of conditions and procedures which should be applied to these cases is being prepared and will be submitted to the Department of Defense for consideration at an early date.

Sincerely yours,

Henry F. Holland[4]

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[4] Printed from a copy which bears this typed signature.

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518. Memorandum of a Conversation, Department of State, Washington, June 13, 1955[1]

SUBJECT

Financing of Purchase of Two Peruvian Submarines

PARTICIPANTS

Mr. Sullivan,[2] Department of Defense
Mr. Thomas B. Klakring, Rear Admiral, USN (retired)
OSA—Edgar L. McGinnis, Jr.
Admiral Roque A. Saldías, Peruvian Minister of Navy
Ambassador of Peru Fernando Berckemeyer

Mr. Sullivan explained to Admiral Saldías and to Ambassador Berckemeyer that he had been requested by Mr. Anderson, Deputy Secretary of Defense, to call upon them. Mr. Sullivan said that the purpose of his visit was to clarify the position of the Department of Defense with respect to the financing of the Peruvian submarines. He said that neither Mr. Anderson nor other officials of the Department of Defense had raised this question at lunch with Admiral Saldías today[3] because at that time Mr. Anderson was not acquainted with the matter in sufficient detail. Mr. Sullivan explained that Mr. Anderson and many other officials of the Department of Defense were very sympathetic with Peru's desire to finance the construction of two additional submarines and that he was certain that detailed arrangements could be worked out providing for a United States Government loan of approximately $15 million to finance the transaction. Mr. Sullivan also stated that the Department of State was in full agreement with the Department of Defense as to the desirability of this transaction. Mr. McGinnis referred to the Peruvian Embassy's note of June 2, 1955,[4] raising the question of the financing of the submarines. He said that while a written reply had not yet been made he could assure Admiral Saldías and the Ambassador that the Department's reply, which would be forthcoming shortly, would be favorable. Mr. Sullivan added that the Defense Department was quite anxious to facilitate the purchase of these submarines since they would be available, when completed, to assist in hemisphere defense tasks under the Bilateral Military Assistance Agreement.[5]

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[1] Source: Department of State, Central Files, 723.5621/6–1355. Confidential. Drafted by McGinnis.

[2] Apparently Charles A. Sullivan, Director, Policy Division, Office of the Assistant Secretary of Defense for International Security Affairs.

Ambassador Berckemeyer said that he was gratified to hear this. Admiral Saldías said that he was also pleased to receive this information and implied that he was surprised that the matter had not been raised at Mr. Anderson's luncheon at the Pentagon, since the transaction regarding the submarines was the primary purpose of his trip. The Admiral then asked Mr. Sullivan various questions respecting interest rates and the terms of the loan. During this discussion, Mr. McGinnis made it clear that details regarding the loan should be worked out directly between the Department of Defense and Peruvian authorities. He mentioned that while the Department was very much interested in the transaction, time would be saved through direct contact between the Department of Defense and interested Peruvian officials. He added that the Department of State would, of course, be delighted to be of any assistance in the matter if requested.

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[3] Deputy Assistant Secretary of Defense Anderson had been host to Admiral Saldías at a luncheon at the Pentagon on June 13. In a memorandum dated June 10, McGinnis informed Holland that the Admiral was in the United States to arrange financing for the two submarines requested by the Peruvian Navy. (Department of State, Holland Files: Lot 57 D 295, Peru)

[4] Note 5–3–M/129, not printed. (*Ibid.*, Central Files, 723.5–MSP/6–255)

[5] For text of this agreement, signed at Lima, February 22, 1952, and entered into force on April 26, 1952, see 3 UST (pt. 2) 2890.

Admiral Saldías made it clear to Mr. Sullivan that he wished at least to reach a preliminary agreement upon this matter before his departure at the end of the week. Mr. Sullivan said that he believed this could be worked out and promised to go over the details in his office immediately upon his return.

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519. Memorandum of a Conversation, Department of State, Washington, June 15, 1955[1]

SUBJECT

Conversation with Admiral Saldías regarding Peruvian Claim to 200-Mile Maritime Zone

PARTICIPANTS

Rear Admiral Roque A. Saldías, Minister of Navy and President of the Council of Ministers of Peru
Ambassador Fernando Berckemeyer of Peru
Ambassador Ellis O. Briggs[2]
Assistant Secretary Holland
OSA—Mr. McGinnis

After handing Ambassador Berckemeyer the Department's note of June 15 conveying a favorable reply to Peru's request for a loan for the construction of two submarines,[3] Mr. Holland said he wanted to discuss a matter which he regarded as very important. He said that while this matter had been discussed both here and in Lima to a great extent, he wished at the risk of boring the Minister, to talk about it further because of the great weight attached to the problem by the highest officials of this Government.

Mr. Holland then referred to the present difficulties between the U.S. on the one hand and Peru, Chile and Ecuador on the other, regarding the latter's claim to sovereignty over a 200-mile maritime zone. He said that Ambassador Briggs, who was present, had been brought back to Washington to engage in consultations on this question. Mr. Holland related that he had tried to put himself in the position of a Peruvian in examining this question. He said that from that point of view he believed that the chief consideration was the conservation of the fisheries off the coast of Peru. He said that this was a readily understandable aim with which we had no quarrel. He went on to say that the claim of sovereignty over this extensive zone, although apparently not necessary for purposes of conservation, had been made publicly and in concert with Chile and Ecuador so that it was a difficult matter for Peru to disavow such a claim. He said that he sympathized thoroughly with the problem presented to the Peruvians in working out some means whereby claims to sovereignty over the high seas could be modified or abandoned while preserving the objective of conservation, without causing internal political difficulties in Peru.

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[1] Source: Department of State, Central Files, 723.022/6–1555. Confidential. Drafted by McGinnis.

[2] Ambassador Briggs was in Washington for consultations, June 15–24. He was appointed Ambassador to Peru on March 24 and presented his credentials to the Peruvian Government on May 27.

[3] The note is not printed. (Department of State, Central Files, 723.5621/6–1555)

Mr. Holland then said that the U.S. problem was likewise difficult. He said that there was complete agreement within the U.S. Government that the principle of the freedom of the seas which was a fundamental concept of U.S. policy could not be harmonized with the claims advanced by the three powers. He said that our problem was an extremely broad one since it involved vital security considerations and our relationships with the entire world. Any modification of the traditional three-mile concept would impose tremendous burdens upon our security arrangements.

Mr. Holland then referred to the U.S. proposals, which we believe to be fair and reasonable, that the legal issue be submitted to the International Court of Justice for decision and that the U.S. then work out a conservation agreement with the three nations designed to safeguard the legitimate interests of all parties in the conservation and exploitation of the fisheries in question. He said that we could not, of course, accept any reference to a 200-mile zone as a basis for negotiations. Any limitation upon the extent of the area to be dealt with in the agreement would be determined by the scientific and technical factors, he indicated. He asserted that he wished to make this clear since it appeared that the three nations expected negotiations to take place within the framework of the Santiago Declaration.[4] Mr. Holland added that the juridical position of the parties would not form a part of the negotiations, permitting each of the participants to preserve its position on territorial waters. In closing, Mr. Holland stated that the U.S. was now considering its reply to the June 3 notes of the three countries on this matter and hoped to make it available shortly.[5]

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[4] The Santiago Declaration, issued in 1952 by Chile, Ecuador, and Peru, stated that each of those countries possessed "sole sovereignty and jurisdiction" over the sea adjacent to its borders extending not less than 200 miles from the coast, and over the sea floor and subsoil underneath.

Admiral Saldías replied that he was in full agreement with Mr. Holland on the importance of resolving this issue speedily. He indicated . . . that neither the Peruvian Navy nor indeed the combined naval strength of the three nations were sufficiently strong to enforce jurisdiction over so vast an area. He confirmed Mr. Holland's understanding that the Peruvian Government's sole concern was the conservation of the fisheries off its coasts and referred to the classic Peruvian argument that the preservation of marine life off its coasts was vital to the existence of the guano industry because of its function in providing food for the birds. He mentioned that in his view Peru had a much larger stake in the conservation of the fisheries off its coast than either Chile or Ecuador not only because of the guano industry, but also because the Peruvian fishing industry was much more highly developed than that of the other two nations. He said that when he returned to Peru next week he would immediately bring before President Odria the views which Mr. Holland had expressed. He suggested that at the San Francisco Commemorative Meeting Mr. Holland speak on this matter to the Peruvian Foreign Minister, as well as to the Foreign Ministers of Ecuador and Chile who would be there. He emphasized that this entire question fell primarily within the province of the Foreign Ministry. Admiral Saldías made it clear that he was in full agreement with Mr. Holland's views although he mentioned that the problem for Peru had been aggravated in the past by the habit of some American fishing vessels to fish near the Peruvian shore which naturally excited much public interest and comment. He referred to one instance in which a U.S. vessel had come in so close that it ran aground at Talara. The Minister concluded his comments by expressing the view that the 200-mile claims by the three powers were motivated in great part by the exercise by the U.S. of jurisdiction on the seas beyond customary limits during the prohibition era and by U.S. claims to the resources of the continental shelf off its shores.

The visit terminated after some brief discussion regarding the proposed construction of the two Peruvian submarines in which it was brought out that Admiral Saldías anticipated that they would be completed by the Electric Boat Company in thirty months and that they would be substantially the same as the two submarines previously purchased by Peru from that Company.

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[5] These notes from Peru, Ecuador, and Chile are not printed. (Department of State, Central Files, 720.022/6–655)

520. Memorandum of a Conversation, Department of State, Washington, July 11, 1955[1]

SUBJECT

Peruvian Complaint Regarding Condition of U.S. Jet Aircraft and Proposed Purchase of Military Equipment

PARTICIPANTS

Ambassador Berckemeyer of Peru
Colonel Silva Rojas, Peruvian Military Attaché
Deputy Assistant Secretary Cecil B. Lyon, ARA
AR—Mr. Sayre
OSA—Mr. McGinnis

Ambassador Berckemeyer said that he wished to talk about the question of the jet aircraft recently delivered to Peru by the USAF.[2] He said that six of these planes turned out to be used aircraft with a considerable number of hours of operation. He said that officials of his Government were very disappointed over this and that General Moya, Peruvian Chief of Air Staff, had recently come to Washington to discuss the matter with Pentagon officials. He said that, in fact, General Moya had an appointment with General O'Hara of the USAF to discuss the matter tomorrow. The Ambassador said that he hoped that the Department of State would take up this matter with the USAF with a view to resolving the matter satisfactorily.

Mr. Lyon expressed regret that the Peruvians were disappointed in the condition of the aircraft and said that he felt quite sure that the USAF would make any rectification required by the circumstances. He said he would be glad to talk to General O'Hara about this matter and would do so as soon as possible. Mr. Sayre brought out that there was perhaps some misunderstanding regarding the condition of the aircraft since the planes in question came from AF inventory. He indicated that when the planes were sold to Peru for a price considerably below the cost of new aircraft, it was understood that new ones would not be provided. He also indicated that these aircraft had been delivered sooner than it would have been possible to furnish new aircraft. Mr. Sayre said that the AF was considering sending a technical team to Lima to inspect the aircraft so that appropriate measures could be taken to correct any deficiencies.

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[1] Source: Department of State, Central Files, 723.5622/7–1155. Confidential. Drafted by McGinnis.

[2] The matter of the jet aircraft had previously been brought to the attention of the Department of State in February, when the Peruvian Ambassador asked Sparks for help in expediting delivery of planes Peru had ordered the previous year. The Department was not able to help at that time because the Air Force did not have the planes ready. (Memorandum of a conversation, February 4; *ibid.*, 723.5622/2–455)

Robert Sayre prepared a briefing memorandum for Cecil Lyon earlier on the day of the July 11 meeting. In it he informed Lyon that six aircraft had been delivered on July 1, and six more remained to be delivered. The Air Force was investigating the condition of the planes and planned to explain the matter to General Moya the following day. The Air Force informed the Department of State that it planned to take care of any deficiencies in the aircraft. (*Ibid.*, 723.5622/7–1155)

Ambassador Berckemeyer said that he thought the idea of sending a technical team to Peru was an excellent one and hoped that it could be carried out. He thanked Mr. Lyon for offering to speak to General O'Hara about this matter and indicated that he believed a satisfactory solution could be found to the matter.

(After the Ambassador had departed, Mr. Lyon telephoned General O'Hara who confirmed that he had arranged to meet with General Moya tomorrow to discuss this matter. General O'Hara informed Mr. Lyon that although a check in the AF indicated that there were no deficiencies in the rehabilitation of the aircraft in question, there nevertheless could have been some failure on the part of those responsible for reconditioning the planes. General O'Hara assured Mr. Lyon that the USAF would deal with the Peruvians most fairly and in a spirt of goodwill in order to avoid embarrassment and ill-feeling, and said that a technical team could probably be sent to Lima to inspect the aircraft and arrange for the correction of any deficiencies.)[3]

After the conclusion of the discussion regarding the jet aircraft, the Ambassador said that he wished to present a note (No. 5–3–M/144 dated July 11, 1955) to Mr. Lyon regarding the proposed purchase by Peru from the United States Government of various items of military equipment and ammunition.[4] He said that he had brought Colonel Silva Rojas with him for the purpose of discussing the contents of the note. Colonel Silva then said that the equipment listed in the note was needed to increase the efficiency of the Peruvian Army, both for the purpose of enabling it to fulfill commitments with the United States for the defense of the Hemisphere, as well as for domestic defense. The Colonel said that the list contained an item calling for the purchase of 35 medium M4A3 tanks. He said that if available, 17 of these tanks should be M26 tanks. Colonel Silva asserted that the Defense Department had recently announced that M26 tanks were available, but had withdrawn the offer shortly thereafter. Accordingly, he was not quite certain whether they could be obtained or not. The Colonel stated that the remaining items on the list were principally ammunition, spare parts and similar items.

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[3] A memorandum from Sayre to Holland and Lyon, dated July 13, reported that the Air Force officer handling the case of the Peruvian jets had informed him that the matter was being straightened out with the Peruvians. Technical repair work was to be done on the six aircraft previously delivered to Peru, and the six F–86s not yet delivered were to be inspected by Peruvian Air Force officers in this country before they went to Peru. (*Ibid.*)

Gonzalo Pizarro, Peruvian Chargé d'Affaires, telephoned Lyon on September 16 to indicate that the Peruvian Government was satisfied with the way in which the F–86 matter had been settled, and was grateful to the Department for its help. (Memorandum of a telephone conversation, September 16; *ibid.*, 723.5622/9–1655)

[4] Not printed. (*Ibid.*, 723.5–MSP/7–1155)

Mr. Lyon assured Ambassador Berckemeyer and Colonel Silva that the note would be carefully considered and the request taken up as soon as possible through appropriate channels.

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521. Letter From the Ambassador in Brazil (Briggs) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Lima, August 8, 1955.

DEAR HENRY: Other than the major underlying problem that we discussed last June,[2] namely that of a more equitable distribution of the gross national product of Peru among the Peruvians themselves, there seem to be three principal items for us to consider:

1. *Peru–Ecuador relations.* Short of dividing up Ecuador between Peru and Colombia, which might be a laudable proposition for long-range planning but doubtless impractical as an immediate objective, it would be desirable for renewed efforts to be made so that Ecuador and Peru can bury their hatchets somewhere else than in each other. The present situation is a recurring source of harassment and disturbs Inter-American relations generally. As long as there is an unsettled frontier, periodic crises will occur and furthermore each country is impelled to spend a good deal more than it can afford on armaments—money which is badly needed for national development. I hope therefore that the four guarantors of the Rio Protocol[3] can shortly apply sufficient pressure so that the delimitation of the boundary can be completed. In this, it seems to me that Peru could afford to be generous.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Peru. Confidential; Official–Informal.

[2] No record of this conversation has been found in Department of State files.

[3] A Protocol of Peace, Friendship, and Boundaries between Peru and Ecuador was signed at Rio de Janeiro on January 29, 1942. The protocol entered into force when it was approved by the congresses of Ecuador and Peru on February 26, 1942. For text, see 56 Stat. 1818 or 3 UST 700. The four guarantors were the United States, Argentina, Brazil, and Chile.

2. *The fisheries dispute,* about which I have no particular comment beyond that contained in telegrams, other than to reiterate that I think our Latin American friends have a downhill pull and that the longer the matter drags the more the Good Neighbors are going to support the Santiago Declaration, to our possible discomfiture.

3. *Peru's increasing dollar indebtedness.* Ever since Peru became the white-haired boy in the private enterprise classroom, this country has been contracting dollar debts for various projects, most of them probably useful. I have been unable, because of lack of economic personnel to have the kind of study made of this subject on which I hope Linville, our new Economic Counselor, can embark as soon as he unpacks his toothbrush. (He is due in October.) We should however be doing Peru no service, and possibly undermining our general program of economic collaboration, if we permit Peru to borrow more than the country can reasonably expect to repay. This situation needs scrutiny, and in the meantime I hope further credits, including those for military purposes, can be kept to a minimum.

Except for the foregoing I think things are on a fairly even keel. Needless to say we hope for a visit from you whenever you have time to travel through your new bailiwick.[4]

Sincerely yours,

Ellis

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[4] In his reply of August 17, Holland wrote: "Your good letter of August 8 afforded me not only food for thought, but also many chuckles. I hope to get many more like it. Certainly, you have put your finger on the salient problems, and each is one with respect to which we can hope to accomplish something constructive." (Department of State, Holland Files: Lot 57 D 295, Peru)

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522. Editorial Note

On August 24, Henry Dearborn sent a memorandum to Holland concerning the sale of military equipment to Peru on credit terms. He added up the cost of the items requested by Peru (listed in the September 3 letter, *infra*) and said that if all were approved Peru would receive about half the total credit approved so far for all of Latin America. He considered the situation undesirable for two reasons: (1) In a period of increasing tension between Peru and Ecuador, the fact that Peru might go elsewhere for arms if the United States refused to sell did not adequately answer Ecuador's possible charge that "the U.S. had placed fuel on the fire by making it easy for Peru to buy U.S. equipment;" and (2) the Pentagon had given no assurance that it would continue to sell significant amounts of military equipment on credit terms, and it seemed unlikely that any other Latin American country would receive nearly as much credit as Peru. Dearborn's memorandum suggested that the Peruvians be advised that Peru had received more credit than any other Latin American country and additional credit could not be approved, although military items might be bought for cash. (Department of State, Central Files, 723.5–MSP/8–2455)

A memorandum from Holland to Dearborn; Neal; and Robert S. Folsom, Deputy Director of the Office of Regional American Affairs, dated August 26, stated that ARA's fears regarding the results of a policy of easy credit for Latin America for military equipment were being realized. The final paragraph of the memorandum reads: "We have had time now to see that instead of improving our relations with Peru we have caused them to degenerate sharply with the Army and the Air Force, each of which feels that it is entitled to just as favorable credit terms as those extended to the Navy." (*Ibid.*, 823.56/8–2655)

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523. Letter From the Acting Secretary of State to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, September 3, 1955.

DEAR MR. GRAY: The Department of State is transmitting to the Defense Department through established channels, several recent requests from the Peruvian Government for the purchase of military equipment,[2] including:

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[1] Source: Department of State, Central Files, 723.56/9–355. Secret. Drafted by Spencer on August 30. Transmitted to Hoover as an attachment to a memorandum from Holland, dated August 30, also drafted by Spencer. The Holland memorandum dealt with the problem of selling more arms to Peru on credit while that country was engaged in a serious boundary dispute with Ecuador. In the memorandum, Holland recommended that Hoover sign the letter to Defense and also request Defense's comment on an attached note to the Peruvian Government. The proposed note to Peru explained that the United States was unable to offer additional credit for the purchase of military equipment because a relatively large share of the limited amount of credit available for the American Republics had already been used to finance military equipment for Peru. Peru could, however, purchase military equipment for cash, subject to the availability of the equipment requested. (*Ibid.*, 723.56/8–3055)

According to a handwritten note at the end of the source text, it was delivered to the Department of Defense on September 3.

1. Thirty-five medium tanks, with supplementary equipment;
2. One-hundred-pound, two-hundred-and-fifty-pound and one-thousand-pound bombs desired for the Peruvian Air Force;
3. Twenty-two B–26 and four F–86 aircraft;
4. Equipment desired for installation in two submarines currently being constructed for the Peruvian Government by the Electric Boat Division of the General Dynamics Corporation.[3]

With the exception of Item No. 1, all of the equipment is desired by the Peruvians for purchase on deferred payment terms. It is understood that the total price of the equipment desired on credit would be about $11 million. If this amount should be added to the $15 million in credit recently approved for the construction of two submarines and to the $6 million approved for the purchase of fighter aircraft, the total military credit extended Peru during the last twelve months would reach a figure of approximately $32 million. This would be about one-half of the total amount of military credit approved for the entire Latin American area to date.

Although the State Department would have no objection to Peru's being sold the equipment itemized above on terms of cash payment in advance of delivery, either of the following two reasons would appear to argue strongly against our approving additional military credit to Peru at the present time. First, it will not be possible to deny the claims of other Latin American countries for proportionate amounts of military credit and at the same time maintain friendly relations with them. It is assumed that the Defense Department would not be prepared to make available the funds necessary to finance proportionate amounts of credit for Ecuador, Brazil, Chile and other Latin American countries likely to request similar treatment.

Secondly, relations between Peru and Ecuador are at the present time severely strained because of the boundary dispute between the two countries. Recent acquisitions of armament by both countries have intensified this unfortunate situation. Although we are not at present prepared to deny to either country the opportunity to purchase United States armament on a cash basis, we cannot afford to expose ourselves to the charge that we facilitated the acquisition of armament by either party by offering equipment on easy payment terms.

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[2] The requests are attached but not printed.

[3] In a memorandum to Holland, dated September 6, Barnes informed the Assistant Secretary that after signing the letter to Defense, Hoover had expressed some doubts about whether equipment for the submarines should be included in the proposal. At Hoover's request, an official at Defense was informed by telephone of his doubts, and he replied that that point would be taken into consideration when a reply was drafted. (Department of State, Central Files, 723.56/9–355)

The State Department desires to transmit the enclosed note to the Peruvian Government, indicating that we are prepared to sell Peru equipment on a cash basis but cannot extend additional military credit at the present time.[4] In order that the Peruvian Government may be promptly advised of our views, we would appreciate receiving the comments of the Defense Department as soon as possible.[5]

We consider it essential that the United States diplomatic and military representatives avoid implying to Peruvian representatives that our decision on this case was based on Peru-Ecuador boundary considerations. The State Department is requesting its officers in Peru and the United States to avoid making such implications, and we hope that the Defense Department can take similar precautionary measures.

Sincerely yours,

Herbert Hoover, Jr.[6]

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[4] Not printed, but see footnote 1 above.

[5] In an earlier version of this letter, this sentence read: "In order that the Peruvian Government may be promptly advised of our views, I would appreciate the comments of the Defense Department being communicated to me or to Assistant Secretary Holland by telephone today, if at all possible."

[6] Printed from a copy which bears this stamped signature.

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524. Letter From the Assistant Secretary of Defense for International Security (Gray) to the Acting Secretary of State[1]

Washington, 23 September 1955.

Dear Mr. Hoover: I refer to your letter of 3 September 1955 requesting comments by the Department of Defense on a proposed diplomatic note from the Department of State to the Peruvian Government.

The Department of Defense interposes no objection to the sale to Peru on terms of cash payment in advance of delivery of any or all of the matériel itemized in your letter. However, with respect to the equipment for the two submarines, it is believed desirable to leave open the question of financing for the following reasons:

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[1] Source: Department of State, Central Files, 723.56/9–2355. Secret.

(a) To require the Peruvian Government to pay cash in advance may force them into a foreign market where credit is available and where the equipment can be procured at more favorable prices.

(b) From a military standardization point of view it is desirable to insure that the equipment is of U.S. origin.

(c) The equipment should be available to the Electric Boat Company on a phased schedule in order that the production of the two submarines will not be delayed.

The Department of Defense believes that all requests for credit should be considered on their merits and in the light of conditions existing at the time they are submitted. In approving the extension of credit to Peru, the Department of Defense does not commit itself to granting proportionate amounts of credit to other Latin American countries.

Representatives of the Department of Defense who are concerned with transactions with Peru have been instructed to avoid any implication that our decision on this case was based on Peru-Ecuador boundary considerations.

Sincerely yours,

Gordon Gray

525. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, October 26, 1955.

DEAR MR. GRAY: In your letter of September 23, 1955[2] (I–14786/5) to Mr. Hoover you suggest that we leave open the question of additional credit for equipment for the two submarines being constructed by the Electric Boat Company for the Peruvian Government. I understand from the reasons given in your letter that the Department of Defense considers that it would be desirable to provide additional credit for the construction of these two submarines in order to assure that they are purchased in the United States in furtherance of our policy on arms standardization in Latin America.

It has been my understanding that the Department of Defense originally urged a loan of MDAP funds for the construction of these two submarines, not on the basis of standardization, but because the Department of Defense determined that these submarines could make an important contribution to the defense of the Western Hemisphere. I also understand that since the loan was made with MDAP funds transferred to the grant military assistance program for Peru it could only be extended in accordance with the provisions of section 105 (b) (4) of the Mutual Security Act of 1954. If this understanding is correct, and the Department of Defense continues to consider that these two submarines are required for hemisphere defense, the Department of State would concur in the additional credit, which I understand is less than $1,000,000.

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[1] Source: Department of State, Central Files, 723.56/9–2355. Secret. Originally drafted by Sayre on October 14. At that time it consisted of four paragraphs. The third paragraph, omitted in the final text, reads: "While I recognize the importance of having Latin American governments procure their military equipment from the United States, I believe you would agree that our arms standardization policy must be considered along with other policies. You are probably aware of the political difficulties that the credit already granted Peru has created in our relations with other Latin American countries, especially Ecuador, and with Peru itself because we have been unable to provide comparable credit to the Army and Air Force of Peru. It is partly because of these political difficulties that the Department of State considered it inadvisable to grant further credit to Peru. I would not consider furtherance of the standardization policy alone as sufficient justification for modifying that view."

The original draft was cleared in AR, OSA, and U/MSA; and transmitted to Holland with a memorandum, dated October 18, from Robert Folsom. Folsom's memorandum suggested that since Hoover had participated in previous discussions on the submarines, Holland might want to discuss the proposed reply with him before signing it. A memorandum to Holland from Cecil Lyon, dated October 19, recommended the omission of the original third paragraph. Lyon said he thought that civilians rendered themselves vulnerable when, after the principle of standardization had been adopted, they tried to evaluate when standardization was or was not desirable. A handwritten note at the end of Lyon's memorandum, presumably by Holland, directed it to Folsom with the following comment, "I would omit 3rd ¶, sign & clear across Hoover's desk."

A memorandum from Folsom to Holland, also dated October 19, informed him that the letter to Gray had been redrafted on that day by Sayre, as Holland had suggested, and was attached. It had been cleared in AR, OSA, U/MSA, G, and U. Folsom stated that the third paragraph had been inserted in the first place because Defense had originally justified the submarines on the basis of hemisphere defense, and it was felt that the letter from Defense "provided an opportunity to point up our desire that military assistance to Latin America be based on a consistent policy and something sounder than standardization. While the second paragraph touches on this point, it was thought it might be useful at this time to make our position clear." (*Ibid.*)

[2] *Supra.*

The penultimate paragraph of your letter refers to the general policy that the Department of Defense believes should be applied in granting credit for the purchase of military equipment. We are now considering the procedures and criteria which the Department of State believes should govern the granting of credit for the purchase of military equipment and this will be the subject of a subsequent letter.

Sincerely yours,

Henry F. Holland[3]

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[3] Printed from a copy which bears this stamped signature.

526. Memorandum From Edgar L. McGinnis, Jr., of the Office of South American Affairs to the Director of the Office (Bernbaum)[1]

Washington, December 19, 1955.

SUBJECT

Summary of Holland Visit to Peru, November 22–25, 1955[2]

Informal reports from Ambassador Briggs indicate that the Holland visit to Peru was successful in impressing upon the Peruvians the sincerity of our desire to help them and the genuineness of our friendship for Peru. Press notices regarding the trip were voluminous and uniformly favorable although some general criticism was expressed regarding United States cotton and sugar policies.

There were five principal problems discussed, namely: cotton, sugar, Eximbank loans, the unrecognized commercial debt, and the 200-mile limit. These questions are taken up below.

Cotton. Mr. Holland took the occasion to explain our cotton policy which has created considerable apprehension in Peru. Peru's immediate concern was with the program to sell one million bales of surplus cotton on a bid basis next month. The Peruvian Embassy here had registered Peru's deep concern regarding this disposal program earlier in the year. The program contemplates the sale on the world market of one million bales of lower quality, short staple cotton at competitive bid prices. Mr. Holland explained that the cotton in question is short staple, lower quality fiber not directly competitive with Peru's long staple variety. He stated that it is our policy to guard against any action which will depress world cotton prices in carrying out the sale of this cotton.[3]

Sugar. Mr. Holland explained that pending sugar legislation here will, if passed, result in a doubling of Peru's sugar quota within five years. While it appears that this statement was well received, Peruvian sugar producers are still apprehensive over the possibility that Peru may not be able to avail itself of an increased quota in the

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[1] Source: Department of State, Central Files, 110.15–HO/12–1955. Confidential. Copies were sent to Samuel Waugh, Atwood, Corbett, and Charles R. Harley of the Department of the Treasury.

[2] Holland, along with Bernbaum and Waugh, visited Peru as part of a general trip to five South American countries. In despatch 326 from Lima, December 7, the Embassy summarized the economic discussions which the Holland–Waugh party had during their visit. (*Ibid.*, 033.1120/12–755) In a memorandum dated December 12, Holland briefly noted the problems which he encountered in Peru. (*Ibid.*, 110.15–HO/12–1255)

[3] Documentation on U.S.-Peruvian relations regarding this matter is *ibid.*, 411.2341.

United States market, because it is not a member of the International Sugar Agreement. It may be observed here also that the Peruvian press reported Mr. Holland as stating that the proposed legislation would *triple* Peru's U.S. quota.

Loans. In connection with Peru's application for a $15 million loan for the Marañon highway, the Peruvians were told that detailed cost data would be necessary before further consideration could be given to it. It was suggested that an engineering firm be hired by Peru to work up these estimates. Peru was likewise informed that the Eximbank would prefer that the construction contracts for the highway be placed upon a competitive bid basis instead of having the construction covered by a concession contract as it is at present. It was indicated that if these conditions were met, favorable consideration would be given to the loan application.

Since the return of the Holland group, the Export-Import Bank has prepared a letter to go forward to the Peruvians along the lines mentioned above. The letter will also state that the cost to the Peruvians of hiring an engineering firm to make cost estimates may be financed by a loan from the Bank.[4]

The Finance Minister, Guimoye, stated that the Peruvians needed a $9 million loan to complete the construction of the steel mill which was being financed by French interests. Guimoye was promised that this matter would be considered in Washington and the Peruvian Government given an answer thereon when the Holland group returned to the United States. In its analysis of this loan request, the Export-Import Bank has determined that the loan in question is sought to cover an operating deficit of the Santa Corporation which is in charge of constructing the steel mill. The proceeds of the $9 million loan would therefore go to the French creditors and would not result in any increase in United States export trade. Under the circumstances the Bank will inform the Peruvian Embassy here that it cannot give favorable consideration to this type of loan.

Unrecognized Commercial Debt. Mr. Holland took up with the Finance Minister the unsettled claims of a number of American firms against Peru for reimbursement for losses resulting from the termination of exchange controls in 1949. These claims amount to approximately $4 million. While their validity has been recognized by numerous high officials of Peru, they have not yet been settled. The Finance Minister informed Mr. Holland that negotiations were underway at present with the various creditors with a view to paying this indebtedness in bonds. Guimoye said that he hoped the matter soon would be concluded.

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[4] This letter was apparently transmitted to the Embassy in telegram 258 to Lima, December 27. (Department of State, Central Files, 103–XMB/12–2755) Additional documentation on this subject is *ibid.*, 823.2612.

The foregoing information is considered to be very encouraging, since Peru has made only fumbling efforts to liquidate these debts. However, Guimoye left office shortly after the departure of the Holland group and there is a possibility that this plan may lose headway as a result of his leaving. A report on this matter is now being awaited from Embassy Lima.[5]

200-Mile Limit. Mr. Holland discussed with President Odria our position regarding the territorial waters dispute. The President informed Mr. Holland that Peru seeks only assurances for the protection of marine resources off its coast. Odria suggested that the United States negotiate a bi-lateral conservation convention with Peru in terms permitting each country to maintain its position regarding the sovereignty issue. While recognizing the merits of the United States' position based upon worldwide strategic responsibilities, Odria emphasized the emotional state of Peruvian public opinion on this issue and that time is therefore required for the gradual abandonment of claims of sovereignty.

Since the departure of the Holland group, Embassy Lima has been instructed, with respect to the Quito Fisheries Meeting of the CEP countries December 12, that it should endeavor to have Odria instruct the Peruvian delegation to avoid any commitments which would create difficulties for the negotiation of the agreement mentioned by Odria to Holland on November 24.

In subsequent discussions with the Peruvian Government, the Embassy was assured that the Quito meeting would be "exclusively technical" and would not affect the suggestion that Odria made to Holland regarding a possible bi-lateral agreement. Despite this, Ambassador Briggs anticipates that the Peruvian delegates might find it difficult to work out any agreement on a technical plane that ignores the sovereignty issue. He also reported that the Peruvians have not attempted to work out any basis for the bi-lateral agreement suggested by Odria. The Quito meeting is now in progress.

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[5] Apparent reference to despatch 333 from Lima, December 13. (*Ibid.*, 223.1141/12–1355)

527. Editorial Note

Telegram 587 from Lima, April 12, reported that the Peruvian Government had officially requested assistance to cope with a serious drought in the southern part of the country. Embassy personnel had been aware of drought conditions in the Puno–Cuzco area for some time and agreed that the need for aid was serious. The final paragraph of the telegram urged "maximum effort meet Peruvian requirement for economic, political and humanitarian reasons." (Department of State, Central Files, 411.2341/4–1256)

Telegram 598 from Lima, April 17, reported that the Peruvian Minister of Agriculture had given the Foreign Minister a statement of the emergency needs resulting from the drought, and the Foreign Office was drafting an official note requesting United States assistance. The Ambassador suggested that, because the Peruvian Government lacked experience in handling famine relief, the Department of State should consider sending a competent administrator with experience in that field to work with the Peruvian officials. (*Ibid.*, 411.2341/4–1756)

Telegram 410 to Lima, April 18, informed the Embassy that the Department would be sympathetic to the Peruvian request for assistance, and listed some tentative amounts of supplies that it could consider sending. According to the telegram, the Department was studying the relative merits of handling the relief aid under Title I of Public Law 480, or a combination of Titles I and II. (Under Title I, surplus agricultural commodities were sold to the recipient country for foreign currency; under Title II they were given to the recipient country.) (*Ibid.*)

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528. Telegram From the Director of the International Cooperation Administration (Hollister) to the Embassy in Peru[1]

Washington, May 1, 1956—6:30 p.m.

Icato 229. Joint State/USDA/ICA. Reference—Embtel 622.[2]

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[1] Source: Department of State, Central Files, 411.2341/4–2656. Confidential; Niact.

[2] Dated April 26, telegram 622 reported a conversation the Ambassador had with the Foreign Minister on April 26 concerning the drought relief program. (*Ibid.*)

1. You are authorized to offer GOP under Title II, PL 480 2000 long tons nfds milk and up to 45,000 long tons grain of which 25000 tons tentatively considered to be wheat and/or wheat flour, 10,000 yellow corn and 10,000 barley, on condition terms para 4 below and that GOP (1) agrees to conclude current negotiations Title I PL 480 approximately 40,000 tons wheat; (Title II shipments per para 2 below need not be delayed pending conclusion negotiations); (2) purchase usual marketings wheat under Title I program; (3) agree to take in addition a minimum of 90,000 tons grain tentatively considered to be wheat 50,000; corn 20,000; barley 20,000 under Title I on terms to be agreed upon. FYI 90,000 tons being considered as minimum required meet drought emergency. Advise if this not correct. End FYI.

2. Upon receipt GOP acceptance terms expressed para 1, ICA/W will arrange promptly for earliest possible shipment Title II grain. Shipping likely be tight and will require promptest action if first shipments to arrive Peruvian ports June.

3. Assuming GOP acceptance terms para 1 desire advice soonest re intended sales price Title II commodities and whether commodity breakdown proposed both Title I and II satisfactory. Also indicate whether 90,000 tons additional to proposed 40,000 tons considered adequate under Title I.

4. Transfer Authorizations will control transfer of Title II commodities and will include such requirements as:

(a) GOP responsible for all charges incident to the distribution of the commodity authorized herein including demurrage, port, offloading and inland transportation costs.

(b) Suitable bag marking and publicity so that recipients will know program made possible by gift from people of US.

(c) Commodity required be used for drought relief purposes, distributed without discrimination free or in payment work relief projects approved by USOM/Lima (latter should consult ICA/W before approving types of projects) or may be sold for soles to the extent that such soles are made available through approved work relief to drought victims for use by them to purchase food.

(d) US govt to be provided with complete info re progress program and use of assistance received and to be given opportunity observe and review operations.

5. Re Embtel 612 cable on press release follows.[3]

6. Ocean freight Title II program to be financed by Peru. At least fifty percent of liner tonnage and at least fifty percent tramp

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[3] Dated April 21, telegram 612 transmitted the text of a suggested press release to be distributed following U.S. approval of the drought aid program. (*Ibid.* 411.2341/4–2156)

tonnage must be in US flag vessels, unless waived by ICA/W basis nonavailability.

7. Neal concurs.

Hollister

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529. Telegram From the Ambassador in Peru (Briggs) to the Department of State[1]

Lima, May 2, 1956—5 p.m.

637. Re my phone call to Lyon this morning.[2] Without minimizing difficulties Department has overcome in working out with other agencies concerned emergency relief program for Peru, I apprehend that manner of our proposed reply may rob American generosity of large part of benefit in terms Peruvian goodwill which should legitimately accrue to US Government. In fact I foresee that note embodying Icato 229[3] may produce effect of striking friend with wet fish. It can impair goodwill instead of creating it and can encourage our enemies falsely to accuse us of being busybodies governed by selfish motives.

For example Peru can allege we are using her need in order to force pending PL 480 agreement down government's throat, whereas that arrangement should be divorced from pending appeal for help. (We have good prospect of working out that agreement which we understand has now been approved all along lines: its prior acceptance by Peru has no place in relief agreement).[4]

Again, to demand pledge of "complete information" (paragraph 4d) in present circumstances of excellent USOM collaboration from Peru is clearly superfluous, if not pointedly declaring lack of confidence in Peru's ability with our cooperation to handle program.

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[1] Source: Department of State, Central Files, 411.2341/5–256. Confidential; Niact.

[2] No record of this telephone conversation has been found in Department of State files.

[3] *Supra.*

[4] Telegram 440 to Lima, May 4, advised the Ambassador that the Spanish and English texts of the P.L. 480 agreement with Peru that the Embassy had previously transmitted to Washington were acceptable, and he could proceed to sign the agreement. It stated that the Department of Agriculture planned to announce the signing of the agreement on May 7. (Department of State, Central Files, 411.2341/4–556)

Thirdly, bag marking pledge (paragraph 4b) a desirable provision, can be worked out as program develops but should have no place as initial commitment demanded of Peru in exchange for our aid. (For instance, we can inform Peru that we are labeling bags of relief grain "al Peru de sus amigos Norte Americanos" or some such legend, and request authority put similar marking on goods landed in bulk Southern ports. I am confident Peru will have no objection provision this nature if appropriately presented).

What I hope to receive is authorization inform Peru in effect that US Government:

1. Heedful of friend's emergency need and appeal for aid to meet that need, is prepared to furnish as contribution commodities specified FOB US ports, shipments to begin soonest and
2. In addition US Government prepared make loan to Peru on favorable terms to cover purchase of other commodities specified as soon as negotiations pursuant existing US legislation can be completed. Such provision as those set forth in paragraph 4 can be explained orally to Peruvian officials without impact I foresee if they are now embodied in our written reply to Peruvian request for assistance.

I repeat that generosity of our response and good effect thereof on our relations can be undermined by manner of our reply and "eat it dear, it's spinach" aspect of provisions cited. As Department aware we are not infrequently criticized by our Latin American friends on precisely this score.

Respectfully bespeak Department's further consideration in light this message.[5]

Briggs

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[5] A handwritten notation on the source text notes that the matter was clarified by a telephone conversation between Bernbaum and the Ambassador on May 3.

Telegram 667 from Lima, May 10, reported that a Foreign Office note of May 8 accepted with gratitude the offer of aid made in an Embassy note of May 4. (*Ibid.*, 823.49/5–1056) Despatch Toica A-822, May 22, transmitted a translation of the Foreign Office note of May 8.

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530. Editorial Note

The Peruvian presidential election, held on June 17, resulted in the election of former President Manuel Prado Ugarteche. Documentation on this subject is in Department of State, Central File 723.00.

Telegram 6 from Lima, July 3, reported that the Embassy had received a note from the Peruvian Foreign Office, dated July 2, stating that the Government of Peru would be happy to receive a special mission representing the United States for the inauguration of President-elect Prado on July 28. (*Ibid.*, 723.11/7–356) Telegram 23 to Lima, July 16, informed the Embassy that the Secretary of State would head the United States Delegation to the inauguration. (*Ibid.*, 723.11/7–1656) The names of the other members of the United States Delegation, which included Assistant Secretary Holland, are contained in press release 402, July 20, printed in Department of State *Bulletin*, July 30, 1956, pages 187–188.

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531. Telegram From the Ambassador in Peru (Achilles) to the Department of State[1]

Lima, July 29, 1956—11 p.m.

93. During calls on Odria[2] and General Mendoza[3] Secretary took occasion to congratulate them on economic policy followed by Odria administration. Otherwise his only substantive conversation here was with Prado July 27. Following is summary. Full memo by despatch.[4]

Prado obviously greatly pleased that Secretary had been chosen represent President Eisenhower at Peruvian inauguration. He recalled his cooperation with US during last regime and declared intention follow similar policy in future. Prado showed particular pride in having been leader of allied cause in Latin America during last World War. Recalled when he was in US as guest President Roosevelt 1942 he had warned that USSR would cause trouble to allies but that President had insisted fears unfounded. Prado said President had urged him establish diplomatic relations USSR but latter refused.

Secretary emphasized US satisfaction over Peruvian economic policies and noted advantages free enterprise amply demonstrated in

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[1] Source: Department of State, Central Files, 723.11/7–2956. Secret.

[2] A memorandum of Dulles' conversation with Odría was forwarded to the Department in despatch 70 from Lima, August 2. (*Ibid.*, 110.11–DU/8–256)

[3] General Juan Mendoza, Peruvian Premier and Minister of Education.

[4] Despatch 63 from Lima, August 1, transmitted a memorandum of this conversation, together with copies of the four memoranda given to the Secretary of State by President Prado. The memoranda were entitled: (1) The Peruvian-Ecuadorian Boundary, (2) Continental Defense, (3) Trade Relations between Peru and the U.S.A., and (4) Cotton and Sugar. (Department of State, Central Files, 723.11/8–156)

Peru. Prado asserted he had followed similar policies in first administration and would make every effort continue along this path. Prado said one of obstacles to attracting greater foreign investment was double taxation and expressed hope negotiate treaty with US eliminating double taxation of profits earned by US investors in Peru.

Holland recalled that at Rio Economic Conference Secretary Humphrey had stated US glad negotiate tax treaties OAR and had offered include provisions establishing that taxes remitted by foreign governments as incentive to new industries might be taken as credit against US income tax as if paid abroad.

Secretary raised question territorial waters and stressed broad security requirements important to whole free world. Pointed out if we admitted right of states unilaterally to extend territorial waters indefinitely we might be faced with similar claim by USSR which would make close observation around periphery USSR and China impossible. If US aircraft unable get nearer than 20 miles coast iron curtain countries it would be unable discharge functions vital to free world. Prado supported views Secretary re security and said Peru's interest was preservation resources sea from exhaustion. Secretary replied he felt we could satisfy this interest through international convention avoiding any assertion international sovereignty. Prado said some way would still have to be found prevent other (European) nations from fishing indiscriminately in convention area. Holland suggested problem could be solved through open-ended conservation treaty to which nations desiring fish convention area could adhere. Prado and Secretary preferred if possible obtain adherence at outset any countries now fishing potential convention area.

Secretary expressed US concern over international communism. Said US had established special organization reporting directly to President and Secretary of State on subject and asked whether Prado would consider establishment similar organization. Latter wholly sympathetic and promised study matter carefully. Secretary expressed willingness arrange exchange information re communism between US and Peruvian organizations and also offered US assistance technical training this field.

Secretary then raised cotton and sugar questions. Re former said President Eisenhower had objected strenuously to quota provision in Agriculture Act and had said he would administer in way which would do least damage economics friendly countries. Stressed great influence US cotton and sugar producers in US Congress. Re sugar Secretary assured Prado US would do whatever it could to give Peru larger share US market within limitation international sugar agreement and US domestic legislation. Believed administration might be able assign Peru unused portions quotas of other countries during

October or November. Prado noted that though Peruvian sugar exports insignificant compared total consumption of US nevertheless highly important to Peru's economy.

President Prado brought up Ecuador–Peru boundary question and expressed virtually same view as taken in recent communications talks Peruvian Foreign Ministry. Said question had been settled by Rio Protocol 1942 during his first administration and by subsequent Braz de Aguiar award.[4] Secretary referred to guarantor recommendation re aerial survey of disputed area. Assured Prado we had no intention opening up review whole boundary question and that added survey only applied to disputed portion. To Prado's observation that disputed area had already been photographed, Holland replied our own experts advised us maps not usable because of atmospheric conditions and because techniques not sufficiently advanced in 1947 to obtain accurate results. Holland said progress Ecuador–Peru negotiations blocked by geographic fact which obstacle guarantors believed could be overcome by survey. This would permit parties to move ahead in settlement of real problem. Prado gave no indication acceptance guarantor proposal but instead reiterated statement that maps existed and next step should be establishment final boundary markers.

Finally Prado expressed full support standardization armament in Latin America along US lines and said proposed follow such program for Peru. Hope US could supply equipment at prices comparable European offers. Secretary agreed completely and said President Eisenhower had in recent conversation with him advocated this as sound hemisphere policy. To Secretary's observation that Peru had recently acquired British aircraft, Prado replied "not I".

Above conversation lasted one hour and ten minutes. On Secretary's departure Prado handed him four memos. One was on Ecuador boundary and followed line Peruvian note to guarantor foreign ministers last January. Main point was Braz de Aguiar award was agreed upon by parties and should be complied with whatever the topographical details of pertinent area. Only new statement was that mixed Ecuador-Peru boundary commission might require assistance another Brazilian technician in lieu Braz de Aguiar for fulfillment latter's 1945 decision.

Second memo reiterated above Prado statements re standardization military arms and added such cooperation by US would permit Peru apply resulting savings to improve Peruvian living standards.

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[4] On February 16, 1945, Peru and Ecuador accepted a boundary line proposed by Captain Braz Díaz de Aguiar of Brazil, a neutral arbitrator. The settlement was subsequently known as the Braz de Aguiar award.

Third memo deals with trade relations. States Peruvian imports from US considerably exceed Peruvian exports to US and therefore necessary remove US limitations on latter to reduce unfavorable balance. Asserted US should not prejudice Peruvian exports other markets as at present. Example sale of American cotton for local currencies to such countries as Chile and Colombia which are traditional Peruvian markets now displaced. Also criticized "enormous dumping program" which has caused fall of eight cents per pound in price cotton, this meaning decrease of $12 million in Peru's annual foreign currency income. Prado said US could do much to facilitate economic development Peru and mentioned specifically reduction on taxes of profits US corporations in Peru. Referred to US lending agencies and International Bank as indispensable to finance large foreign currency expenses in public works. Also desirable enlarge Peruvian market for American products.

Fourth memo devoted specifically to cotton and sugar. Said only practical and equitable solution world overproduction and surplus cotton problem could be for US gradually remove any support of domestic prices. This would lead to decrease world prices. All countries would be in similar situation and production in each would be reduced in marginal areas without resort to unfair dumping measures. Re sugar memo recommended Secretary Agriculture not apply punitive clause of sugar act to Peru thus allowing this country small increases of quotas granted under sugar law. Emphasized Secretary not compelled apply this clause. Also recommended that US support Peru in meeting International Sugar Council Geneva next October to help Peru obtain "fair and vital" quota 457,000 metric tons annually for export to free world. Said this is Peru's only condition for entering world sugar agreement.[5]

Achilles

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[5] Dulles left Peru on July 28, curtailing his planned tour of several South American countries, in order to return to Washington and consider developments relating to Egyptian President Gamal Abdel Nasser's nationalization of the Suez Canal Company.

532. Memorandum of a Conversation Between the Former Peruvian Ambassador (Beltran) and the Assistant Secretary of State for Inter-American Affairs (Holland), Department of State, Washington, July 30, 1956[1]

SUBJECT

Peruvian Matters

Mr. Beltran[2] opened by asserting that in his judgment the Prado Government would do everything that it could to assure good government and progress in Peru. He said that President Prado did not have the support of substantial sectors of the more prosperous people because they felt that he was too much of a politician. He, however, felt that this was important since President Prado would be able to elicit public support for his policies.

He listed the principal problems of the country as follows, saying that the Government could not solve them without the support of the United States:

(1) *Public Housing*

He said that he had urged President Prado to bring down from the United States experts to advise him on how to go about a public housing program. He said, however, that it would be necessary for the United States to extend credit for it.

(2) *Land Reform*

He said that it would be essential to avoid communism and to achieve reasonable progress in a number of areas of the country that the Government buy up some of the large land-holdings and resell them to local farmers. He insisted that he was not in favor of expropriation, but rather recommended, instead, conventional purchases of these large land-holdings for subdivision and resale. This again would require assistance from the United States for the financing.

(3) *Roads*

He pointed out the inability of producers in many parts of the country to get their products to market and the need for roads to achieve this.

In response, I made more or less the following statement:

(1) The United States foreign policy is designed primarily to serve the interests of the people of the United States. It is essential that Peru understand the United States foreign policy in order to see

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[1] Source: Department of State, Central Files, 723.00/7–3056. Secret. Drafted by Holland on August 13.

[2] Pedro Beltran, Peruvian Ambassador to the United States, 1944–1946.

the ways in which United States assistance and aid can be obtained within the limitations of our policies.

On financing I said that the Export-Import Bank is today following what is perhaps the most liberal banking policy ever offered by such an institution anywhere in the world. Our policy is now to undertake to satisfy every application for a loan to finance U.S. goods and services for developmental projects where the project is sound and is in the interest of the two countries, where the loan is within the borrower's capacity to pay and the Bank's capacity to lend. I described in considerable detail the Bank's performance over the past few years showing how generously this policy has been implemented.

As regards financing for the local currency costs of development projects, I described our PL–480 programs. Mr. Beltran pointed out that most of the cost of low-cost housing projects and of land reform would have to be incurred in soles and that dollar credits, therefore, would not be very useful for them. I pointed out how in the course of the present year the United States will sell approximately $150 million of agricultural reserves in Latin America and will lend back to the Latin American governments some $110 million of the proceeds of those sales. I pointed out that out of the loans to Peru of the local currency product of sales of agricultural reserves here, I was not aware that any substantial portion had yet been pledged by the Peruvian Government. In other words, it is probably true that the Peruvian Government can at this time plan to use the portion of these local currencies lent to it to finance low-cost housing projects and to finance land re-subdivision.

I was surprised to find that Mr. Beltran was apparently completely uninformed either as to Export-Import Bank policy and performance or as to the PL–480 programs in which we are engaged.

I went on to say that in my judgment no other area of the world had found itself in so favorable a position as regards economic progress if that area of the world was willing to undertake real self-discipline. As regards commerce, the policy of the U.S. Government is today to protect the access of Latin American products to the U.S. market. Until last month when the Congress passed the Agricultural Act of 1956 containing a provision restricting the access of Peruvian cotton to the U.S. market not one regulation or piece of legislation became effective reducing the access of one Latin American product to the U.S. market. Even in this one case, the President, in signing the bill, had stated that he would ask the next Congress to correct this pernicious clause and that, in the meantime, he would administer it with great caution so as not to prejudice the economies of friendly nations. Mr. Beltran was apparently unaware of this situation as well.

Peruvian-Ecuadoran Boundary Dispute

I described to Mr. Beltran the conversation between the Secretary and President Prado, pointing out our anxiety that President Prado understand that the guarantors in recommending an aerial survey of the unmarked portion of the boundary, had no intention of reopening any other portions of the boundary. I explained that the parties were now blocked from any real progress by disputes over geographical facts. It is in the interest of both parties that the physical situation on the ground be defined in order that our discussions may be directed at the establishment of a boundary instead of in sterile disputes as to what the geography of the area is. He agreed that if he had an opportunity to do so he would urge President Prado to agree to such a survey and would point out to him the reasons behind the request of the guarantor that the survey be made.

Armaments

I told Mr. Beltran that in my judgment it was a great mistake for Peru and Ecuador to be wasting as much of their assets in the purchase of arms as it appears that they are wasting. I pointed out specifically the loan requested and obtained by Peru of $15 million to buy two submarines which in my judgment are wholly unnecessary for the defense of the country. He agreed with some enthusiasm and asked why the United States would not take the initiative in urging a Latin American conference on disarmament.

I replied that our policy with respect to maintenance of peace in the hemisphere was as follows: Over a number of years we had made the mistake of intervening unilaterally in the domestic affairs of Latin American countries to reestablish peace when it had been disrupted. In such cases we did achieve the reestablishment of peace but we also reaped a harvest of ill-will not only in that country but in all other countries of Latin America. In recent years we have come to the conclusion that by far the best way to work toward the maintenance of peace in the hemisphere is through the OAS. There the United States' influence can be made felt just as effectively, but without the prejudicial results that always flow from our unilateral intervention. I described to him in some detail the facts surrounding the settlement of the conflict between Nicaragua and Costa Rica. I also recalled to his mind the prompt and effective action of the OAS in the recent dispute between Ecuador and Peru. I pointed out to him how such a record of prompt and effective performance on the part of the OAS had actually achieved considerable relaxation of tensions between countries with traditional ill-will. I pointed specifically to Haiti and the Dominican Republic, to Nicaragua and Costa

Rica and to the problems between Ecuador and Peru. He agreed that this was, indeed, the best and most effective way to maintain peace.

Referring to his proposal of a disarmament conference I said that I felt that if the U.S. were to take the initiative in proposing such a conference our motives would be subject to suspicion and there would be considerable criticism. I said that, on the other hand, if President Prado, preferably accompanied by several other presidents of the area were to propose such a conference we would be in a position to respond favorably and to try to help out in achieving its holding. He said that he would discuss this with President Prado and undertake to get his support for the proposal.

I emphasized that in my judgment it was of great importance that Peru follow the sound economic policies which have given it a position of leadership in this field in Latin America. I pointed out specifically that Peru follow policies that will effectively control inflation and that will establish the integrity of Peruvian currency. I referred to the need to balance the domestic budget and to insure that the dollar income of the economy is not wasted in unessential imports. He replied that he was in complete agreement with me on these points, that he had worked to achieve them for some time and that he would continue to do so.

Communism

Mr. Beltran said that he was one of those who over the years had always argued that Peru had no communist problems. He said that as a result of the last elections he now saw that Peru had a very difficult and immediate communist problem. He said that in the course of the elections he asked from time to time why the Prado group selected certain individuals of whose background he had very unfavorable reports. The reply was that these individuals controlled the communist elements in certain parts of the country and would therefore be able to achieve an overwhelming majority of the votes. To his amazement this is exactly what occurred. This convinces him that communist leaders are able to control the majority of the votes in certain parts of the country, particularly in the Indian areas near Bolivia. He seemed to feel a great deal of concern about this problem and felt that one of the first steps towards its solution was that of raising the standards of living of the Indians in the highlands of Peru.

As regards his contacts with President Prado he said that he was not an intimate adviser, but that he felt that he had frequent and easy access to the President and that the President would listen to him without resentment. He said that he had known the President for many years and had always been able to talk to him in a very frank way and that he would continue to do so.

I talked to him at considerable length about the need that the Government follow policies encouraging private enterprise in Peru. I said that the United States Government was devoted to the principle of private enterprise, not because of any doctrinaire reasons, but simply because we were convinced that better than any other system yet devised it had demonstrated its capacity to increase production and to raise standards of living. I said that to us private enterprise meant that type of private enterprise with a social conscience, private enterprise that realized that economic progress is meaningless unless it is reflected in raising the standards of living of the people who work for the various different enterprises. I said that in our judgment private enterprise meant private enterprise rooted in the people of a particular country. I said that it was essential that the Government of Peru adopt those policies and programs which are designed to inspire confidence in its own investors leading them to repatriate their capital from abroad and invest it in productive enterprises here in Peru. I said that in my judgment programs and policies designed to attract foreign investors are meaningless unless they are directed first at the creation of confidence among domestic businessmen and investors. If such confidence is achieved, then little additional need be done to bring private investors if they are wanted. He expressed agreement, of course, on these points as well.

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533. Memorandum of a Conversation, Department of State, Washington, April 12, 1957[1]

SUBJECT

Peruvian Request for a Cruiser

PARTICIPANTS

Ambassador Berckemeyer, Embassy of Peru
Admiral Llosa, Naval Attaché, Embassy of Peru
ARA—Mr. Rubottom
REA—Mr. Sayre
OSA—Mr. Pringle

Ambassador Berckemeyer said that he was presenting a note requesting a cruiser, that the reasons for the request were fully explained therein,[2] and that there was really not much for him to add.

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[1] Source: Department of State, Central Files, 723.5621/4–1257. Confidential. Drafted by Pringle.

Mr. Rubottom said that the Department would consider the note, consult with Defense, and reply promptly. He added, however, that the Peruvian cruiser request had been under careful study by the U.S. ever since Ambassador Berckemeyer and Admiral Llosa had presented it orally on February 8, 1957, and that he wished to express frankly some of the considerations which weighed in our thoughts. From the military standpoint, he said, the U.S. had demonstrated its desire to assist Peru in developing a modern navy capable of effective anti-submarine warfare, and he cited examples such as the credit for the two submarines soon to be delivered. He added that modern concepts of naval warfare had made cruisers outmoded and that they were being converted to missile vessels. From the economic standpoint, he pointed out that, even were a cruiser available, (and he understood none was), it could not be loaned. The cost plus rehabilitation of a cruiser would be from $5.8 million up, while a rough estimate of the annual maintenance would be about $5 million. Mr. Rubottom said that the U.S. had repeatedly shown its interest in Peru's economic development, that we were aware of some of the economic problems caused by the drought in the south and by inflationist tendencies, and that we felt the purchase and maintenance of a cruiser might place a serious burden on the economy.

Ambassador Berckemeyer replied that the desire for a cruiser involved the very strong national sentiment and pride which the Peruvian nation felt for its navy. He added that he was well aware of the economic implications but that there were various offsetting factors. For example, the two antiquated cruisers being maintained by Peru as a matter of national pride could be scrapped when a modern one was acquired, and he expressed the opinion that Peru's maintenance costs would be considerably lower than the $5 million it would cost the U.S. to maintain one. He also said that the Peruvian Navy had its own receipts from special taxes which it would use to pay for the cruiser and that the Embassy would present a study regarding the economic aspects if the Department desired.

Mr. Rubottom said that the Embassy could, of course, present such a study if it wished. He said that he understood the Peruvian nation's pride in its navy as so ably described by Admiral Llosa in their previous conversation but that he thought national sentiment could be guided if the people were made aware of the fact that big ships, except for super carriers, were outmoded. He pointed out that far-reaching changes had been made in the U.S. military establishment, changes which had affected many careers and military units, but that the American people had understood the necessity for them. He said he believed that Peruvian public opinion could be made to understand that a cruiser would not really be an asset to its navy and that it would continue to take pride in having a sharp, efficient navy of small vessels.

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[2] Apparent reference to Peruvian Note 5–3–M/101, dated April 11. (*Ibid.*, 723.5621/4–1157)

Berckemeyer said he wanted to clear up one point. In various conversations with officers of the U.S. Navy during Admiral Barron's visit[3] and subsequently, Peruvians had gained the impression that the Navy was disposed to grant Peru's request for a cruiser if State agreed. He inquired whether the viewpoints expressed by Mr. Rubottom also represented those of Defense.

Mr. Rubottom said he believed that State and Defense were in agreement regarding the military and economic considerations which he had presented above. He said that he felt Peru was entitled to a written answer to its note which would express the agreed-upon viewpoint of the U.S. Government and that State would consult with Defense and prepare a prompt reply.

Admiral Llosa said he wished to make some observations concerning the national and international political aspects of the cruiser request. He made some of the same points that he had on February 8 concerning the importance of the Peruvian Navy as a democratic institution and source of national pride. He said that the Peruvian people and government wanted the cruiser and that the request was one which should be considered in the whole context of the very friendly relations between Peru and the United States. He observed that the Department did not have to worry about the maintenance costs, that Peru was able to support a cruiser and would not have asked for one if it had not examined that point. (He did imply, however, that the acquisition cost should be suitably low.) Summing up, he said he believed that, if State considered the political factors in the light of his explanation and Defense took them into consideration together with the military ones, there would be no reason to refuse Peru's request.

Mr. Rubottom repeated that the Department would consult with Defense and reply promptly. He emphasized, however, that he wanted to be frank and that he did not want the Ambassador and the Admiral to be optimistic concerning the answer to be expected on the cruiser request.[4]

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[3] Rear Admiral Emilio Barron Sánchez, Peruvian Minister of the Navy, visited the United States November 5–8, 1956.

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[4] Telegram 666 from Lima, April 17, reported that the Peruvian Naval Minister had read to Ambassador Achilles a part of Ambassador Berckemeyer's report of his meeting at the Department of State on April 12. The report stated that the Department told him there were no cruisers available for loan, but one might be bought for $6 million, with an estimated annual maintenance cost of $5 million. Ambassador Achilles replied that the decision on the cruiser would have to be made in Washington on naval grounds. He said he was not sure a decision to sell Peru a cruiser would be in that country's interest because of the burden in money and men the maintenance would entail. (Department of State, Central Files, 723.5621/4–1757) Telegram 499 to Lima, April 19, informed the Embassy that the Department was "seriously concerned over grossly inaccurate reporting by Berckemeyer and Llosa regarding US attitude on purchase cruiser," and was sending a copy of this memorandum of conversation to Lima. (*Ibid.*, 723.5621/4–1957)

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534. Letter From the Special Assistant to the Under Secretary of State for Mutual Security Affairs (Barnes) to the Assistant Secretary of Defense for International Security Affairs (Sprague)[1]

Washington, April 30, 1957.

DEAR MR. SPRAGUE: The Peruvian Government, in note No. 5–3–M/101 of April 11, 1957, from the Peruvian Embassy, has revived its request for a cruiser. Peru asks that the cruiser be made available on a loan basis. It will be recalled that the Peruvian Government previously sought to obtain a cruiser from the United States in 1951 when two cruisers each were sold to Argentina, Brazil, and Chile. We were unwilling at that time to sell Peru a cruiser and Peru purchased three destroyer escorts that had been offered.

I understand that the Department of the Navy has recently resubmitted legislation to the Congress for authorization to dispose, among others, of two light cruisers of the *Brooklyn* class and seven heavy cruisers of the *Chester* and *New Orleans* class and that a cruiser could therefore probably be made available to Peru.

This Department does not consider, unless there are military reasons to the contrary, that this Government should make a cruiser available to Peru either on a sale or loan basis. Our position is based primarily on economic grounds. It is our understanding that the cost of a cruiser including the cost of reactivation would be at least $5.8 million and, depending on the nature of repairs and improvements required, that the cost could be much higher. While the Department of the Navy has no current figures available, it is our further understanding that maintenance and operations costs would be several million dollars annually.

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[1] Source: Department of State, Central Files, 723.5621/4–3057. Secret. Originally drafted by Sayre on April 19; the last paragraph was redrafted by David de Lima, of the Office of the Special Assistant to the Under Secretary of State for Mutual Security Affairs, on April 29. Cleared by ARA, OSA, E, and U/MSA.

Although Peru's present financial position is satisfactory, it is not such that Peru could assume these added costs without the probability that it might seek additional financial assistance from the United States for its economic programs. Also, a cruiser seems a particularly unnecessary financial burden for Peru to assume because it is our understanding that a cruiser is not needed by Peru to perform any hemispheric defense task. The Peruvian note frankly admits that the cruiser is desired for reasons of national pride.

We anticipate political problems with Colombia and Ecuador, and possibly Chile, if Peru's request is granted. The denial of the request would have adverse effects on our political relations with Peru. We recognize that Peru may seek a cruiser in Britain if unsuccessful here and, in accordance with NSC 5613/1, are considering the advisability of discouraging such a sale by Britain.

At the time that the Peruvian Ambassador presented his Government's request, he was informed that this Government had endeavored to cooperate effectively with Peru on military matters and that we would continue to do so. With regard to the request for a cruiser, however, we had serious reservations on both military and economic grounds and did not anticipate that our response would be favorable but would nevertheless give the request prompt consideration.

I should appreciate being informed whether your Department considers that there is any military requirement for providing Peru a cruiser and, if so, if that military requirement is of such priority as to override the economic considerations I have mentioned above.[2] In this connection, one of the arguments cited by Peru in support of the request for a cruiser is that we are supporting a cruiser in Chile. It would therefore be helpful for us if, in considering the Peruvian request for a cruiser, the Department of Defense would also review the military justification for the retention in the MAP force objectives of the cruisers for Brazil and Chile.

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[2] In the draft version of the letter, the rest of the last paragraph reads: "I should also like to suggest, in considering the Peruvian request for a cruiser, that the Department of Defense review the military justification for the retention in the MAP force objectives of the cruisers for Brazil and Chile."

Sincerely,

Robert G. Barnes[3]

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[3] Printed from a copy which bears this stamped signature.

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535. Editorial Note

A letter from C. Douglas Dillon to Ambassador Achilles, dated June 18, informed him that the administration had decided to recommend the enactment of new excise taxes on lead and zinc. Dillon further stated that at the interagency discussions leading to the presentation of the program, the Department of State had pointed out the serious foreign policy implications of the recommended actions, but "in an effort to relieve the difficulties experienced by domestic lead and zinc mines due to low prices the Administration generally decided to support the Department of the Interior proposals." Dillon closed the letter with the comment that he knew Achilles would have a difficult problem explaining the action to the Peruvian Government and the American mining community in Peru. (Department of State, Central Files, 411.006/5–2857)

Telegram 97 from Lima, August 3, reported that the Peruvian press was devoting major attention to the issue of United States lead and zinc duties. It reads in part: "Normally highly pro-US *La Prensa* leads paper with stories on house hearings and probable termination stockpiling. Inside are leading editorials referring to 'mortal blow' to Peruvian economy, questioning reality of 'good neighbor policy', emphasizing harm tariff increases will do to US-Latin American trade and political relations and expressing pain that Department favors them." (*Ibid.,* 411.004/8–357) Despatch 112 from Lima, August 6, reported further Peruvian press comment on the increase in lead and zinc tariffs. The Embassy considered it certain that if Congress approved lead and zinc tariffs damaging to Peru, the United States would lose at least part of the goodwill it had gained during the drought. Congressional debate had already provided Communist and other anti-United States elements in Peru a chance to denounce United States motives in the economic field. (*Ibid.,* 411.234/8–657) Telegram 149 from Lima, August 17, informed the Department that adverse reaction to the proposed increase in lead and zinc tariffs continued to grow daily. It reads in part: "Most unfortunate aspect is that Peruvians are increasingly convinced that both our good neighbor and commercial policies are fair weather ones which we are prepared to abandon when they come into conflict with material interest of any powerful US element. This is doing us serious damage on political plane and may well have long-term adverse political effects as well as bringing about retaliatory commercial action against US products." (*Ibid.*, 411.004/8–1757)

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536. Telegram From the Chargé in the United Kingdom (Barbour) to the Department of State[1]

London, August 8, 1957—4 p.m.

992. Deptel 851, repeated Lima 47,[2] Lima's 92, repeated London 2.[3] In accordance Deptel 851, Embassy raised subject sale destroyers to Peru with Foreign Office. Foreign Office agreed review British position in view Embassy's representation, and inform Embassy later on UK final decision.

During conversation Foreign Office stated informally considerable irritation exists among some British agencies over recent cases where United States has thought [*sought?*] to block UK commercial deals. In particular Centurion tank matter in Germany was cited and Foreign Office felt certain quarters HMG now extremely reluctant to give United States prior notice of pending deals, particularly in small equipment, for fear United States will block them.

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[1] Source: Department of State, Central Files, 723.5621/8–857. Confidential. Repeated to Lima.

[2] Not printed. Telegram 7119 from London, June 20, reported that Peru had expressed interest in buying two destroyers from the British. It asked whether the Department wanted the Embassy to discourage the Foreign Office from continuing discussions with Peru. (*Ibid.*, 723.5621/6–2057) Telegram 851 to London, July 27, instructed the Embassy to discourage the sale of British destroyers, as well as smaller vessels, to Peru. It added that Congress was considering legislation to enable the United States to loan some destroyers to Peru. The final paragraph reads: "You should explain Foreign Office our objection is however economic. For instance under PL 480 US has in past year granted Peru 135,000 tons agricultural products valued about $12 million for drought relief because of difficult fiscal position GOP. Purchase of British destroyers instead of waiting for loan of ours would add unjustifiable fiscal load and would contribute to weakening country's economic and financial position." (*Ibid.*)

[3] Dated August 1, telegram 92 reported that Peruvian negotiations with the British for destroyers had been dropped. The Peruvian Finance Minister believed he had persuaded the Navy to abandon the idea of obtaining a cruiser from the United States or elsewhere. (*Ibid.*, 723.5621/8–157)

Foreign Office reiterated UK had unfavorable balance of trade with Peru and Peru had large sterling balances unexpended. Continued that other suppliers small military equipment existed such as France and Italy which might fill Peruvian order if United Kingdom and United States refused.

. . . .

Foreign Office felt HMG moving towards position agreeing inform United States in advance about sale large capital items equipment but on smaller items would negotiate deal without bothering check with United States.[4]

Barbour

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[4] Telegram 118 from Lima, August 9, informed the Department of State that Ambassador Achilles felt this telegram indicated progress. He said that he had served in the United Kingdom long enough to understand British foreign exchange problems and their irritation when they felt the United States was trying to block them on minor matters. He added that he would be glad to help explore other uses in Peru for sterling balances, and suggested that engineering and road-building equipment would be preferable to military equipment. (*Ibid.*, 723.5621/8–957)

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537. Telegram From the Chargé in Peru (Neal) to the Department of State[1]

Lima, August 22, 1957—6 p.m.

176. Joint State–USIS. Senator Juan Manuel Pena Prado important Pradista leader, nephew of and close to President and connected with local banking and mining interests, yesterday led strongest attack in high quarters on US within memory Embassy staff. Other Senators joined in and applause from gallery reported enthusiastic. Senator [Gallo] Porras, President Foreign Relations Committee (Independent–Lima) favored urging President Prado look into possibilities establishing commercial relations with Communist countries. Several other Senators supported his view.

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[1] Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Confidential; Priority. Repeated to Buenos Aires. A copy was attached to a memorandum from Fisher Howe to Brigadier General Andrew J. Goodpaster. The memorandum reads: "Subject: Peruvian Congressional Attack on U.S. The Secretary has asked that the enclosed cable from Embassy Lima, subject above, be sent to the President."

Pena gave as one reason for death great numbers guano birds that US tuna clippers were fishing for bait indiscriminately in Peruvian waters thus depleting food supply usually consumed by birds. (Embassy telegrams 137, 147, 167.)[2] US tuna clippers thus held as responsible for threat to important guano industry. Urged Navy Minister take effective steps to patrol Peruvian waters. (Motion to this effect adopted.) Pena also referred failure of US Congress take action on Peru's request for merchant ships and quoted Peruvian Vice President's statement Vice President Nixon has promised him Congress would act on matter this session. Said US action this respect seriously affects economy Peruvian merchant fleet. (Embassy telegram 173.)[3]

Referring lead and zinc Pena reportedly emphasized proposed higher US tariffs inspired by members US Congress who have interest in mines and who seek enrichment at cost of Peruvian ruin. Also referred past US action injurious Peru on cotton and sugar.

Senator Sologuren (Independent–Tacna) criticized US for encouraging production barbasco with good prices and then closing market after plantings made. (Embassy despatch 626, May 9, 1957.)[4]

Some general comments by Pena and others were (1) seems neither good neighbor nor good partner policy exists in US, (2) we hope US does not continue acting within egotistical policy. Senator Dammert (Belaundista–Lima): US adopting dog in manger attitude; if it does not wish buy from Peru ought not oppose Peru sales to others (Iron Curtain). Senator Sologuren: US is commercial country where dollar takes precedence over any other motive.

Comment: This explosion of criticism against US has been building up for some time. GOP believes US has acted adversely or not acted at all on numerous matters which closely affect Peruvian welfare. Press often repeats remarks that US really does not care about LA or Peru. Other points not mentioned in Senate but which have bearing general attitude are resentment over our invitation President Ibanez (Embassy telegram 161)[5] and failure to satisfy Peru on naval vessels.

Embassy believes most of what was said yesterday in Senate was said in anger. Nevertheless US has suffered psychologically in Peru as result. Numerous erroneous notions regarding US have been given headline attention and will be most difficult correct. *La Prensa* formerly notably pro-US on nearly all subjects has led all other daily papers in severity of headline and editorial attacks.

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[2] Dated August 15, 17, and 20, respectively, none printed. (Department of State, Central Files, 611.236/8–1557, /8–1757, and /8–2057, respectively)

[3] Dated August 21, not printed. (*Ibid.*, 723.5621/8–2157)

[4] Despatch 626 concerned economic problems in the Inquitos area. (*Ibid.*, 823.00/5–957)

[5] In telegram 161, August 19, Ambassador Achilles reported that the Peruvian Foreign Minister had sent for him that day "to express concern Chilean President Ibanez being invited to visit US in absence of prior or concurrent invitation to President Prado." (*Ibid.*, 725.11/8–1957)

Neal

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538. Telegram From the Ambassador in Peru (Achilles) to the Department of State[1]

Lima, August 28, 1957—7 p.m.

203. Returned this morning,[2] had editor of *La Prensa* for lunch, held press conference and have talked with Gallo Porras and officials of Mining Association. Took following line at press conference:

Lead and zinc: Had found in Washington not merely pressure to protect US industry but sympathy and growing understanding of problems in Peru and other countries. Congressional action now highly improbable but similar administrative action in next few months very probable. Difference was that problem would be considered in relatively calm atmosphere with ample time for consideration of Peruvian and other foreign problems. Was sure any considerations advanced by Peruvian Government or industry would receive careful attention. To insure Peruvian problems fully and accurately understood in Washington, had arranged for minerals expert Larsen to visit here early in September and for detail here of additional minerals expert for next few months.

Ships: Administrations shipping proposal, like many other of administrations proposal, has not been passed. However price of ships declining rapidly on open market and price differential now small. Any bill passed by Congress would contain cabotage limitation, whereas purchases upon market not subject any restriction. US glad to assist Peru in purchasing ships on open market.

Fishing: Department had investigated press reports alleging illegal US fishing operations off Peruvian coast and had not found substantiation. US always glad to investigate such reports despite differences of opinion re jurisdiction.

At luncheon, editor *La Prensa* volunteered paper's campaign on lead and zinc had gone too far and he would now try redress balance.

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[1] Source: Department of State, Central Files, 411.004/8–2857. Official Use Only.

[2] The Ambassador was in Washington to discuss mutual problems between the United States and Peru, including the lead–zinc tariff.

Gallo Porras was obstensibly friendly and complained only that he had refrained from purchases on open market for six months on basis assurances authorization for purchases from reserve fleet would be approved. In response to direct question whether he was still interested in legislation next session (Deptel 121),[3] he said corporation would now have to seek ships through other channels. I reiterated US desire to assist him in doing so.

With officials of Mining Association, I took same line as with press but putting greater emphasis on fact administration would have to take some action they would not like and reasons therefor. They showed real understanding, relief that action to be taken would be determined by administration rather than Congress and appreciation for Department's action in sending Larsen and other minerals experts here to insure technically competent understanding of situation in Peru.

Achilles

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[3] Dated August 21, not printed. (Department of State, Central Files, 723.5621/8–1557)

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539. Memorandum of a Conversation, Department of State, Washington, October 14, 1957[1]

SUBJECT

The Peruvian Prime Minister's Call on President Eisenhower[2]

PARTICIPANTS

The President
Dr. Manuel Cisneros, Prime Minister of Peru
Fernando B. Berckemeyer, Ambassador of Peru to the U.S.
Theodore Achilles, Ambassador of the U.S. to Peru
R. R. Rubottom, Jr., Assistant Secretary of State

Following an exchange of greetings, the Prime Minister recalled his meeting with the President at Columbia University in 1948 when the latter had bestowed upon him the Maria Moors Cabot Award in

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[1] Source: Department of State, Central Files, 033.2311/10–1457. Official Use Only. Drafted by Rubottom on October 15.

[2] In a memorandum to President Eisenhower, dated October 11, Under Secretary of State Christian A. Herter noted that Cisneros, the Prime Minister and Foreign (Continued)

Journalism. The President referred to the meeting of Chiefs of State in July, 1956, in Panama where he had had the opportunity of knowing President-elect Prado of Peru who had been accompanied by Dr. Cisneros.

The Prime Minister expressed his appreciation for the appointment and his pleasure at seeing the President in such good health.

The President commented that he was very much aware of the impact of the lead and zinc problem on Peru. The best solution to the problem, he observed, would be for prices to move upward, but so far this had not occurred. The affected interests in the United States, while relatively small, have brought great pressure to bear on the members of Congress and senators from several states. The President explained that the political problem had a very serious overtone as a result of the expiration this year of the Trade Agreements Act,[3] one of the principal foundations of our liberal trade policy in the United States. The next Congress will consider extending the Act and possibly revising it. This is vital to him as President and to the entire United States and must be taken into account in dealing with the lead-zinc problem. The President then renewed his expression of sympathetic interest to the Peruvian Prime Minister but gave no indication as to the outcome of the matter.

(Continued)
Minister of Peru, was in New York to attend the U.N. General Assembly session. He was expected to visit Washington between October 14 and 15, Herter pointed out, and "has expressed a strong wish to be received by you." The memorandum continued:

"Our normally fine relations with Peru have been under considerable stress recently, primarily as a result of the threatened increase in our duties on lead and zinc imports. Presentation of the Administration's lead-zinc proposal to Congress caused heated attacks on the United States in the Peruvian press and Congress without parallel in recent years. Peru has been a strong supporter of the United States in international affairs, and its economic policies have been outstanding in encouraging private foreign investment. Any permanent deterioration in our relations would be most unfortunate.

"Assistant Secretary Rubottom and I believe that a call upon you by the Peruvian Prime Minister would be helpful in easing the stress which has recently developed in our relations with his country. Next to President Prado, the Prime Minister is probably the most influential person in the Peruvian Government. His attitude toward the United States is reasonably friendly but not warm. Should he be received by you, the fact would undoubtedly be widely reported in the Peruvian press and serve to demonstrate the interest of this Government in Peru's friendship." (*Ibid.*, 033.2311/10–1157)

A briefing memorandum for the meeting with Cisneros was forwarded to Eisenhower by Herter on October 11. (Eisenhower Library, Herter Papers, Chronological File)

[3] The Trade Agreements Extension Act of 1955 extended the Trade Agreements Act until July 30, 1958; for text of the 1955 Act, P.L. 86, enacted June 21, 1955, see 69 Stat. 162.

The Prime Minister expressed gratitude for the President's comments regarding lead and zinc, adding that this industry had supreme importance for Peru.

When the Prime Minister arose to depart, the President invited the photographers to take pictures of the group.

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540. Current Economic Developments[1]

Issue No. 533 *Washington, November 26, 1957.*

[Here follows discussion of matters unrelated to Peru.]

Peru Beset by Monetary Crisis

The Peruvian Government is grappling with potentially serious monetary problems. In recent years such problems have been unusual in Peru and the Government has outlined a program designed to remedy them. It has also indicated interest in a special Eximbank loan.

Background The Prado Government, which took office in mid-1956 as a result of the first democratic election in some ten years is facing its first real economic crisis.

When the Government came into power last July, it made little change in the fundamentally desirable economic policies which had been followed previously. Like his predecessor, the new President favored policies designed to encourage the effective operation of a free enterprise system and private foreign investment.

The Peruvian economy continued its satisfactory progress during 1956. By mid-1957, however, the picture was less rosy. While production probably had increased during the first half of the year, the rate had been slower than previously. Exports also had increased more slowly than in 1956. Imports had increased more rapidly than exports, creating a less favorable balance-of-payments outlook. The expansion in the money supply and rise of prices, which have long been a problem, had proceeded at a more rapid rate. Industry was confronted by extensive demands from the labor unions. Work stoppage as a result of labor disputes had become common and threatened to become more prevalent. Contributing to this generally unsatisfactory situation was the decline in world prices of copper, lead and zinc, which account for one fourth of Peru's exports. The less favorable economic developments with respect to finance and labor stemmed mainly from the weakness of the new democratic government in dealing with some of the hard political pressures with which it was faced.

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[1] Source: Department of State, *Current Economic Developments:* Lot 70 D 467. Confidential.

The problems noted at mid-year became more pronounced in the ensuing months. Inflation was mounting, the balance-of-payments situation was increasingly unfavorable and the reserves had declined seriously. By the end of October, Peru's reserves had dwindled to $9 million, with the prospect that without urgent measures, reserves would be gone within a month or so.

Government Plans Faced with an increasingly serious crisis, the Government is inaugurating an anti-inflation program. Credit restriction plans include stoppage of rediscounts, cessation of new funds to development banks, and arrangements whereby all new Government deposits will be placed in the Central Bank rather than in commercial banks. As to the excessive bank credit, measures were taken to compel banks to comply with the reserve requirements. With the recent decline in the exchange rate, banks are expected to be more cooperative with regard to reserve requirements than heretofore.

As to Government spending, the Administration hopes to keep the level down to that of the 1957 budget. Any decrease below the 1957 level is considered politically impossible.

On the income side, the Government hopes to obtain some 750 million soles of new revenue in 1958. Peruvian officials hope to get 150 million soles from stricter tax collections, 200 million from new taxes (primarily on beer, alcohol, dividends and overdrafts) and 400 million from increased import duties on some 40% of Peru's imports.

The Government has also taken energetic action which, at least temporarily has practically ended the rash of strikes.

Peruvian officials have explained that once their house has been put in order, they hope to obtain a substantial loan from the Eximbank to cover dollar purchases. As support for their appeal, they refer to their anti-inflation program. Also they maintain that many of their economic problems were inherited from the previous government. A Peruvian official is visiting Washington soon to discuss Peru's problems with the Eximbank, the International Monetary Fund, and other interested agencies.

US Position On November 10 our Ambassador, on instructions, informed the Finance Minister that the US appreciates the fact that Peru's financial situation is weakening and is convinced of the importance of corrective measures such as credit restrictions and reduction in the budget deficit. As to Peru's desire for Eximbank credits, the Ambassador stated that the Bank does not consider itself an appropriate agency for stabilization operations and its assistance would be more properly related to financing specific import requirements, consistent with Peru's stabilization objectives, according to the need for and the nature of imports. If Peru takes adequate corrective measures, the Ambassador said, the existing $30 million stabilization fund ($12.5 million Treasury, $12.5 million IMF, $5 million Chase Manhattan Bank) should be sufficient.

The Ambassador also referred to current conversations between the Eximbank and the Peruvian Embassy about lengthening the time for certain repayments of the Peruvian Government and mentioned the US preference for excise taxes rather than increased duties as a means of increasing income.[2]

[Here follows discussion of matters unrelated to Peru.]

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[2] Ambassador Achilles reported on his conversation with Peruvian Minister of Finance Juan Pardo in telegram 473 from Lima, November 11. (*Ibid.*, Central Files, 823.10/11–1157) He had been instructed by the Department to make such representations in telegram 270 to Lima, November 8. (*Ibid.*, 823.10/11–857)

URUGUAY

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND URUGUAY[1]

541. Memorandum From the Secretary of State to the President[2]

Washington, April 7, 1955.

SUBJECT

Proposal that Uruguayan President be Invited to the United States this Year

I strongly recommend that you authorize that an invitation be extended to Señor Luis Batlle Berres, President of the National Council of Government of Uruguay, to visit the United States in the early fall of 1955.[3] You have authorized four visits from Chiefs of State each year. The President of Haiti,[4] who came in January 1955, was ascribed to the 1954 quota because his visit was actually scheduled for the fall of that year. With the exception of President Magsaysay of the Philippines who has so far been lukewarm to the invitation I extended to him in March, but who may accept a visit sometime in May, there are no other Chief of State visits now scheduled for 1955 from any country.

While Batlle Berres is to be President of the nine-man National Council of Government for only one year, he will continue to be a member of the Council and he and his followers will continue to dominate the Executive power for the next four years. We could, therefore, expect that our relations with Uruguay during this period would be significantly improved by the proposed invitation. Our relations with Uruguay have always been friendly, but they have cooled in recent years to such an extent that cooperation between our Governments has suffered.

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[1] For previous documentation, see *Foreign Relations,* 1952–1954, vol. IV, pp. 1535 ff.

[2] Source: Department of State, Central Files, 733.11/4–755. Confidential. Drafted by Henry Dearborn.

[3] In a memorandum of April 7, the President's Personal Secretary, Ann Whitman, informed Secretary Dulles that Eisenhower approved the recommendation. (*Ibid.*)

[4] Paul E. Magloire.

Batlle's visit would be symbolic of our interest in the small democracies and would counteract the allegations frequently made that the United States is indifferent to them. The Batlle family has been of foremost importance in the development of democratic government in Uruguay, and in honoring Luis Batlle Berres the point would not be lost that we were encouraging the democratic way of life generally. Batlle could be counted on during his visit to make statements condemning international communist aggression, which would have a good effect throughout the Hemisphere.

Your entertainment of President Batlle could appropriately consist of (1) having him as your guest at the White House for one night, during which you would be host at a dinner in his honor and (2) attending a state dinner given by him in your honor.

John Foster Dulles[5]

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[5] Printed from a copy which bears this stamped signature.

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542. Memorandum of a Telephone Conversation Between A. Thomas Taylor of International Packers, Inc., and the Assistant Secretary of State for Inter-American Affairs (Holland), Washington, June 15, 1955[1]

SUBJECT

Uruguay—Meatpackers Negotiations

Mr. Holland telephoned Mr. Taylor to inquire about the status of the meatpackers negotiations in Uruguay.[2] Mr. Taylor said he had had a long conversation this morning with their manager down there and they have been having meetings with the President, the Minister of Finance[3] and the Minister of Livestock.[4] They are working toward a deal. Mr. Taylor said they are making compromises in order to consummate something before it is too late. He said roughly 150,000 head of cattle is the figure set and the FMI would not participate—it would rule them out of participating in this export. Mr. Taylor said that Castro, a little local packer who has been working his way into a percentage of this deal, would have to be taken care of, and that Castro will get 14% of the 150,000.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Miscellaneous. Limited Official Use.

[2] American meatpackers were operating under a system which included numerous government-imposed restrictions upon private packers, who were in competition with a government-sponsored slaughterhouse, Frigorífico Nacional. Meat processing was being held in abeyance while the private packers were seeking a more satisfactory exchange rate for foreign exchange earned from their export operations which had to be converted through the Bank of the Republic at fixed rates. They were also requesting written confirmation of the government's obligation to pay debts owed the private packers. Additional documentation on the subject is in Department of State, Central Files 411.3341, 811.05133, and 832.311.

Mr. Taylor said that one bad feature about the arrangement (and if they can get over that hurdle they would have acceptance of the arrangement) is regarding the payment of the subsidy currently as they produce and ship, because at the official rate of 1½ pesos to the dollar or equivalent in sterling they would only recover 50% of the value of the beef they ship and would be carrying the baby representing the subsidy on the export of beef. They would be exporting at a loss of 5,600,000 pesos. They want to be reimbursed as they go along since it would take $3 million to finance the deal from up here. He said this was the sticking point at the moment.

Mr. Taylor said that Mr. Hamm, their manager, is having another meeting with the President and the Minister of Livestock this afternoon and will cable Mr. Taylor tonight about what they have worked out.[5] He said they have to have assurances that they will meet their losses currently. He said that the Council's group agrees that it should be currently—they all agree to that—but they haven't been able to come up with a solution as to where the money will come from. Mr. Taylor said that by noon tomorrow they should know how it came out.

Mr. Holland asked if Mr. Taylor felt this was a definitive meeting or whether there might be others. Mr. Taylor said that it was definitive; that if they don't get something they can work out on a compromise basis they will probably have to close their doors. He said they would dislike to do this because if they remain closed for a year the Uruguayans may feel they can get along without them.

Mr. Taylor said if somebody up here could make a gesture along financial lines it would be helpful. Mr. Holland asked him pointblank if he meant a loan and Mr. Taylor said he did.

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[3] Eduardo Acevedo Alvarez.

[4] Juan T. Quilici.

[5] A memorandum of June 16 from Holland to Edward J. Sparks indicated that Taylor called Holland the next morning and advised him that the packers were about to reach an agreement with the Government of Uruguay which would permit the companies to reopen their plants. (Department of State, Holland Files: Lot 57 D 295, Miscellaneous)

Mr. Taylor said he would keep Mr. Holland advised of developments.[6]

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[6] Agreement was reached in early July 1955, and the packers reopened their plants.

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543. Memorandum of a Conversation Between Foreign Minister Rompani and the United States Representative at the Organization of American States (Dreier), San Francisco, June 21, 1955[1]

SUBJECT

Uruguayan Foreign Minister's Observations on His Visit to the United States

At the United Nations' Reception on June 21, Foreign Minister Rompani said that he was anxious to talk to Mr. Holland while in San Francisco[2] since he probably would not be able to return to Uruguay via Washington, and he wished to report certain observations on the results of his talks with people in New York and Washington on Uruguay's financial problems. He then proceeded to give me a rather full account of his views and feelings along the following lines:

1. The Foreign Minister mentioned his travels through various Latin American countries, emphasizing the fact that in all cases he was responding to invitations from governments, except in the case of the United States where he understood that it had been impossible. (Nevertheless it was clear he regrets very much that his visit was not in the nature of an official one.)

2. In each country he has visited so far, except for the United States, he has concluded a commercial or cultural agreement which he is taking home as evidence of his successful visit.

3. In the case of the United States he feels his visit has been without material benefit since what he needs are some loans which he has been unable to arrange. In this connection he feels that many Americans in positions of high responsibility, e.g. Mr. Black of the IBRD, are incapable of understanding the small problems of small

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[1] Source: Department of State, Central Files, 733.13/6–2155. Confidential.

[2] Holland was attending the Special Tenth Anniversary Session of the United Nations.

countries because as Americans they are used to dealing only with problems of large dimensions.

Rompani then proceeded to describe Uruguay's need for additional influx of capital which would contribute to the increased productivity of the country but which, he admitted, would not produce additional dollars. The commercial banker's criterion could, therefore, not be applied to Uruguay's requests, but a sympathetic, political understanding of Uruguay's position was necessary.

Mr. Rompani repeated the familiar Uruguayan line about Uruguay's position as a democracy, and her unenviable position as between two large neighbors. He made the usual comments about Argentina, emphasizing that Argentina would never be a real friend of the United States, etc. He also reported with regret that before he left for his trip Ambassador McIntosh[3] had sent an inquiry to his office to ask whether his visit to various Latin American countries was for the purpose of building an anti-U.S. bloc.[4] This incident apparently confirmed his belief that there was an inadequate appreciation of Uruguay and its international position in the U.S. Government.

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[3] Ambassador Dempster McIntosh returned to Washington for consultation, June 7–25. Pertinent documentation is in Department of State, Holland Files: Lot 57 D 295, Miscellaneous.

[4] Rompani had informed the Embassy that, between May 24 and July 11, he would visit Paraguay, Ecuador, Panama, Colombia, Venezuela, and the United States for discussions on economic matters. Documentation relating to his trip is *ibid.*, 033.3320.

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544. Editorial Note

According to telegram 18, July 14, Ambassador McIntosh extended to President Batlle an invitation from President Eisenhower to visit the United States. (Department of State, Central Files, 733.11/7–1455) Batlle visited the United States December 5–17. See Documents 548, 549, and 550.

545. Letter From the Ambassador in Uruguay (McIntosh) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Montevideo, September 21, 1955.

DEAR HENRY: During the past few weeks I have been endeavoring to learn more about the wool tops business and particularly to find out just why Uruguayan wool tops are presently not sold in the United States market and what steps would need to be taken to develop such sales. I have been especially interested in endeavoring to find out how important a factor in this situation is the present American countervailing duty of 6% and whether, if that countervailing duty were eliminated entirely, would that in itself be sufficient to create a market for Uruguayan wool tops in the United States.

In my letter to you of September 1,[2] I expressed the opinion that the basic reason why Uruguayan wool tops are not being sold to the United States is because the prices quoted on Uruguayan wool tops are too high. I also stated that in my opinion, for Uruguayan wool tops to achieve a large volume of sales in the United States, it would be necessary to not only have the countervailing duty of 6% removed, but to also have Uruguayan wool tops prices reduced at least a further 4%. I also stated that although it was a matter of opinion, everyone in the trade here felt that at the least, to create a market for Uruguayan wool tops in the United States, the entire countervailing duty would need to be removed.

In this connection, without disclosing any motive other than the interest of the Embassy in securing more information about the tops business, I asked an American resident in Montevideo, Frank J. Raquet, who is the head of Engraw Export & Import Company, S.A. of Montevideo, an American owned wool tops manufacturing plant, first why he was not shipping any of his wool tops to the United States market and secondly, when he told me that the reason was the inability to meet price competition, what prices he would need to quote to be competitive and to secure business. To secure this information, Mr. Raquet cabled his American connection, Energetic Worsted Corporation of Bridgeport, Pennsylvania, asking for information as to the current prices being quoted by United States tops manufacturers, together with comments about the market for Uruguayan tops. You will find enclosed copy of letter addressed to Mr.

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[1] Source: Department of State, Central Files, 411.334/9–2155. Confidential; Official–Informal.

[2] Not found in Department of State files.

Raquet under date of September 8 by Energetic Worsted Corporation[3] stating the reasons, in their opinion, why Uruguayan wool tops cannot presently be sold in the United States and giving the competitive price information.

The competitive price data submitted with the letter of Energetic Worsted Corporation covers quotations on American produced tops submitted by Nichols & Company, Inc., of Boston, one of the largest tops manufacturers in the United States and prices on Uruguayan produced tops submitted by Engraw Export & Import Company, S.A. of Montevideo. For your ready reference, the comparative prices on the principal types of tops, showing the Uruguayan prices with and without the 6% countervailing duty, are as follows:

Type of Tops	American Tops (Nichols)	Uruguayan Tops (Engraw) Including 6% Countervailing duty	Uruguayan Tops (Engraw) Excluding 6% Countervailing duty
3's	$1.48	$1.66½	$1.59
4's	1.34	1.49½	1.43
5's	1.28	1.43¾	1.37½

You will note from the above price comparison that even if there were no countervailing duty, the prices of Uruguayan tops would still be approximately 7% higher than the prices of American tops in similar grades. Furthermore, Energetic Worsted Corporation state that there is anticipated a further decline in the American prices.

In this connection, it is interesting to note that Energetic Worsted Corporation during the ten-year period prior to 1950 used entirely Uruguayan wool tops, but that since 1950 they have not purchased any Uruguayan wool tops whatsoever due apparently to the Uruguayan tops being out of price. One of the purposes of American import duties is presumably to equalize American and foreign costs, that is, to offset lower foreign labor costs, but in the case of wool tops, it certainly seems that Uruguay is being penalized and is not in a position to compete with American manufacturers.

Sincerely,

Dempster McIntosh

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[3] Not printed.

546. Letter From the Ambassador in Uruguay (McIntosh) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Montevideo, September 29, 1955.

DEAR HENRY: During a private meeting which I had yesterday with President Batlle Berres, the President commented at length regarding the situation in Argentina[2] and expressed great optimism regarding future relations between Uruguay and that country.

It is obviously true that at present there is a very strong feeling of comradeship between Argentina and Uruguay. The revolt in Argentina, of course, had the moral support of practically the entire population of Uruguay and the victory of the revolutionary forces was welcomed in Montevideo and throughout Uruguay with almost hysterical enthusiasm. In Argentina also, there has been a strong reaction against the previous attitude of Perón towards Uruguay, and the principal officials in the new Argentine government have taken advantage of every opportunity to praise their brothers in Uruguay and with great emotion to thank Uruguay for its spiritual and moral help. A large group of Uruguayan journalists proceeded to Buenos Aires immediately following the establishment of the new government and they were given a royal welcome by the Argentine government and by the people of Buenos Aires. Montevideo has likewise extended a tremendous welcome to the officers and the crews of the two Argentine warships, the *Cervantes* and the *9 De Julio,* which have been in the harbor of Montevideo during the last few days and which have returned to Buenos Aires carrying a large group of Argentine exiles back to Argentina, as well as the bodies of the five sailors on the *Cervantes* who were killed during the revolution.

Batlle Berres expressed the feeling that Argentina and Uruguay will work together very closely in the future and that Uruguay will be helped economically and in other ways by the fact that they will now have a strong and friendly neighbor to the South instead of the enemy which Uruguay considered Perón to be. It occurs to me however, that in their enthusiasm over the downfall of Perón, the Uruguayans are overlooking the fact that the new Argentine government, although now friendly to Uruguay, is still a military, not a democratically elected government, and may continue as such for an indefinite period in the future. Also, I feel that to some extent the present attitude of Uruguay towards the new Argentine government is inconsistent with the well-known Uruguayan attitude of hostility towards Pérez Jiménez, Somoza, Trujillo, Castillo Armas, etc., none of whom have ever harmed Uruguay. The theoretical and moralistic attitude of Uruguay towards military non-democratic governments in other countries is apparently subject to modification when Uruguay's own interests are directly involved as in Argentina.[3]

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Miscellaneous. Secret; Official–Informal.

[2] Reference is to the revolt which led to the resignation of Argentine President Juan Domingo Perón on September 19.

While discussing Argentina, Batlle Berres said that confidentially, talking to me as a friend and fellow "criollo", he felt obliged to mention that Ambassador Nufer was very much disliked by the new Argentine government and that he, Batlle Berres, felt that it was important that the United States should realize this. Batlle Berres went on to say that Ambassador Nufer was generally regarded in Argentina as having been too friendly with Perón. The remarks of Batlle Berres were naturally embarrassing to me and my only comment was that in my opinion, Ambassador Nufer was a very good man, with long experience in the American Foreign Service and very highly regarded. There was no further comment by Batlle Berres.

I have hesitated to write you regarding the above, particularly since I personally have a high opinion of Ambassador Nufer and consider him a fine representative of our country. The fact that the new Argentine government would not feel well disposed towards an Ambassador who had been accredited to the former Perón government, and had shown a high degree of success in conducting relations with that government, is certainly not surprising and does not involve any reflection upon Ambassador Nufer. Please understand, therefore, that I have written this without any desire whatsoever to indicate any criticism of Ambassador Nufer and only because I have felt called upon to convey to you the remarks made by the President of Uruguay.[4]

Sincerely yours,

Dempster McIntosh

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[3] In his response of October 12, Holland wrote, in part: "I was greatly interested in your point that the Uruguayans are being excessively enthusiastic over the provisional government in Buenos Aires, but I wonder if you aren't perhaps being a little hard on them. It is true that this government is largely military, and of course not elected. On the other hand, only the military could overthrow Perón, and it seems to me not unnatural that they should thereafter assume the responsibility for restoring law and order." (Department of State, Holland Files: Lot 57 D 295, Miscellaneous)

[4] In his letter of October 12, Holland wrote: "I quite understand your embarrassment over the President's remarks about Ambassador Nufer; you handled it, I believe, in the only way you could. If anything like this comes up again you may certainly state that the Department believes that Nufer has done—and is still doing—a splendid job in Argentina, and has the hearty backing of the Department."

547. Memorandum of a Conversation, Department of State, Washington, October 3, 1955[1]

SUBJECT

U.S. Countervailing Duty on Uruguayan Wool Tops

PARTICIPANTS

Ambassador Mora, Embassy of Uruguay
Señor Bermúdez, Minister Counselor, Embassy of Uruguay
Mr. Lyon, Acting Assistant Secretary
Mr. Havemeyer (OSA)

Ambassador Mora handed an aide-mémoire, dated October 3, to Mr. Lyon.[2] The Ambassador stated that he had also given an identical aide-mémoire to Mr. de Beers in Treasury earlier in the day. Mr. Bermúdez said that the new aide-mémoire included the new exchange rates which apply to wool and other export and import commodities. Furthermore, the Embassy, in this case, was not using the "adicionales" or subsidies on the three items including wheat and meat in the effective exchange rate of Uruguay. This problem had been an item of difference between the Embassy and the officials of the Treasury Department since delivery of the June aide-mémoire to the Treasury.[3]

Mr. Lyon thanked the Ambassador for the aide-mémoire and said that it would be given strong consideration in the Department and that he would endeavor to assist the Treasury Department[4] in any way in its computation which might result in the removal of the countervailing duty on Uruguayan wool tops. He added, that he hoped that the duty could be removed prior to the visit of the President of Uruguay in early December.

(After the above meeting, Mr. Havemeyer spoke to Mr. Hendricks in Treasury[5] who said that Mr. de Beers had left for two years work in Porto Rico, and Mr. George Willis would assume the responsibility of handling the Uruguayan countervailing duty in

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[1] Source: Department of State, Central Files, 411.334/10–355. Limited Official Use. Drafted by Havemeyer.

[2] This aide-mémoire presented the case for removal of the U.S. countervailing duty on Uruguayan wool tops. (*Ibid.*)

[3] Not printed. (*Ibid.*, 411.334/8–855)

[4] In a letter of October 14, Secretary Dulles informed the Secretary of the Treasury as follows: "The Department of State has a particular interest in the possible removal of the United States countervailing duty on Uruguayan wool tops because of the impending visit of the President of Uruguay to the United States in early December. The United States countervailing duty, since it was imposed, has been a source of strain on the economic and political relations between Uruguay and the United States." (*Ibid.*, 411.334/9–2155)

[5] James Hendricks, Assistant to the Assistant Secretary of the Treasury.

Treasury at the working level. Mr. Hendricks said he hoped Treasury can take Uruguay "off the hook".[6] Mr. Havemeyer is to phone Mr. Hendricks later this week for further information with respect to the restudy of the effective exchange rate system of Uruguay as it affects Uruguayan wool tops and the U.S. countervailing duty.)

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[6] In his letter of February 7, 1956, to Secretary Dulles, Assistant Secretary of the Treasury David W. Kendall suggested that the Department answer the Uruguayan Government by stating that the 6 percent rate of countervailing duty then in effect continued to represent an appropriate estimate of the bounty available to Uruguayan exporters of wool tops under the exchange practices in Uruguay. The Treasury Department's decision was not reached until after the most careful analysis of the presentation made by the Uruguayan Embassy, and after informal consultation with the Uruguayan Embassy. (Department of State, Central Files, 411.334/2–756)

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548. Papers Prepared in the Department of State[1]

Washington, December 2, 1955.

SUBJECT

Loan Requests from the IBRD or Eximbank[2]

Discussion:

Uruguay has had requests for three different loans in the IBRD for three years. These total $125 million. The IBRD is acting on these requests by giving partial loans against each request. A loan for $5 million has been signed and ratified this month for the Montevideo Electric Power System. A loan for $5 or $6 million for livestock and pasture improvement is under active negotiation. A loan for a hydroelectric power station at Baygorria, for $25 million, is also under active consideration.

Since March 1, when President Batlle was inaugurated, he has been very interested in obtaining loans for the Montevideo port improvement and for land reclamation (600,000 hectares) in the department of Rocha. The preliminary engineering studies have been completed. The land reclamation estimate is 80 million pesos and the port improvement 75 million pesos. Foreign exchange costs are roughly estimated at $7.5 million each.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, State Visit President Batlle. Limited Official Use. Drafted by Havemeyer and approved by Lyon, Holland, and Dulles.

[2] Attached as Tab G to a memorandum for the Vice President, dated December 6, regarding the State visit of President Batlle.

Uruguay's balance of payments and internal revenue receipts are unfavorable. It is believed that the projects will assist in easing the serious unemployment and relieve the balance of payments and internal revenue difficulties.

Uruguayan Position:

Uruguay has dealt solely with the IBRD since its inception. Uruguay has been slow in its negotiation for loans in the Bank. Uruguay appears satisfied with its relations with the IBRD. If the IBRD does not wish to seriously consider the land reclamation and Montevideo port improvement loans, it is expected that Uruguay will request these loans from the Eximbank.

United States Position:

Because of falling prices for wool and small availabilities of the export of meat from Uruguay, Uruguay's credit rating has decreased in the past five years. Uruguay's potential credit rating is presently far from saturated, as it has done a good job in attempting to keep the balance of payments in balance. As soon as Uruguay has determined which loans it wishes to push and assuming that they are bankable in one of the two Washington institutions, the Department should support them.

Special Problems[3]

1. *Uruguayan Attacks on the U.S. Agricultural Disposal Program.*[4]

Discussion:

Officials and the press of Uruguay are continually complaining about the U.S. agricultural disposal program as they believe that this program is preempting Uruguayan markets and lowering world prices. The major Uruguayan products affected by the U.S. disposal program are wheat and linseed oil.

Until five years ago, Uruguay was a wheat importing nation. Because of subsidies for the increase of local production, there are approximately 600,000 metric tons available for export each year. Brazil is the major customer and Paraguay a small second. There are 120,000 tons left from the 1954 crop which remained unsold and

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[3] Attached as Tab H to the memorandum for the Vice President.

[4] Reference is to agreements made with many countries under the provisions of P.L. 480, the Agricultural Trade Development and Assistance Act of 1954. For text of the Act, see 68 Stat. 454. Uruguay was not party to such an agreement.

Uruguay is endeavoring to sell them to Paraguay and Poland. There are now 600,000 more exportable tons being harvested.

Linseed oil, because of high U.S. tariff, is not imported into the U.S. The large U.S. surpluses of this item which have been sold under the surplus program have tended to deflate world prices.

Uruguay's Position:

Despite U.S. assurances that it will not displace Uruguay's normal markets, Uruguayans attack the program on a general basis and not on specific cases. They allege that U.S. action causes a reduction in the value of their exports and backs up exportable supplies within Uruguay. An officer of the Foreign Office recently stated "Uruguay had completed its normal trade in wheat with Brazil and was not at the time negotiating for further sales to Brazil." He did indicate, however, that Uruguay would have furnished additional wheat to Brazil to fill this need had the U.S. not offered its surplus wheat in exchange for cruzeiros.[5]

The problem appears to be one which the President uses for internal political reasons as there have been no government-to-government complaints for over a year.

U.S. Position:

The U.S. has consulted with Uruguay with respect to negotiations under the surplus disposal act at various times. The most recent case is the proposed sale of 500,000 tons of wheat to Brazil. The Uruguayan reply is quoted above. The Uruguayan Government has been assured that the U.S. is not displacing its normal markets.

SUBJECT

United States Countervailing Duty on Uruguayan Wool Tops[6]

Discussion:

In June 1953 the Treasury found that because of the differentials in the foreign exchange export rates for wool vis-à-vis wool tops, a bounty existed in the export of Uruguayan wool tops. The countervailing duty of 18 percent, which is in addition to regular duties, was lowered to 6 percent in February 1954.

Uruguay's Position:

The Uruguayan Government is constantly changing its complex multiple exchange rate system. At present, if the Uruguayan Government does not put on an additional premium for wool tops, Treasury could consider the suppression of this countervailing duty. It remains for the Uruguayans to provide an effective exchange rate system under which Treasury might remove the duty.

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[5] Documentation relating to the wheat controversy is in Department of State, Central File 411.3241 for November 1955.

[6] Attached as Tab I to the memorandum for the Vice President.

United States Position:

The Treasury Department was prepared in October to remove the countervailing duty but the American Embassy, Montevideo, provided information that a new premium was definitely going to be given to the Uruguayan wool top exporters.[7] For this reason the Treasury Department has not taken any action on the contemplated removal of the duty. If Treasury can obtain a firm commitment from the Uruguayan Government that the differential between the rates provided for raw wool and for wool tops will not be changed in the foreseeable future, Treasury will again be able to consider the removal of the countervailing duty.

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[7] Documentation concerning this subject is in Department of State, Central File 411.3341/11-355.

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549. Notes of the Secretary of State's Staff Meeting, Department of State, December 8, 1955, 9:15 a.m.[1]

[Here follow a list of those present (25), an intelligence briefing, and discussion relating to Morocco, Algeria, Communist China, and Great Britain.]

Uruguayan Visit

8. Mr. Lyon reported that conversations during the visit of Batlle Berres again indicated the increased interest of the Soviets in Latin America. The Czechs had recently made bids for Uruguayan wool, hides and grain, which together with other Soviet Bloc interest in trade with Latin American countries, indicated a decided trend.

[Here follows discussion unrelated to Uruguay.]

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[1] Source: Department of State, Secretary's Staff Meetings: Lot 63 D 75. Secret.

550. Memorandum of a Conversation Between President Batlle Berres and the President of the International Bank for Reconstruction and Development (Black), Washington, December 13, 1955[1]

(The following was given by Mr. Sandelin[2] to Mr. Havemeyer by phone reporting a private conversation which took place after lunch December 8, 1955, in Mr. Black's office. Also present were: Ambassador Lacarte,[3] and Mr. Sandelin.)

President Batlle raised the matter of the Uruguayan request for a loan to improve the State-owned railroads. Mr. Black replied that two years ago the Bank had stated that the railroads could initiate bids for the equipment Uruguay desires to purchase with the loan when granted. Mr. Black continued that since the previous study made by the Bank of the creditworthiness of Uruguay was made two years ago, the Bank now would not authorize the Uruguayan Government to secure bids for the needed equipment until a new study had been made of the creditworthiness of Uruguay. Mr. Black also alluded to the increasing mal-administration of the railroads and the excessive number of personnel working for that organization.

Mr. Black stated that the Bank had been working in Mexico with the Southern Pacific of Mexico which had found itself in similar difficulties to the Uruguayan railroads. Mr. Black said that the Bank would be willing to send a Bank Mission to Uruguay to again investigate its creditworthiness, and also to pay for one-half the cost of a team of experts, to be selected later, to investigate the administration of the railroads. Mr. Black also stated that he understood that a report made by the railroad experts might be politically undesirable for President Batlle Berres, particularly in view of the political aspects of the railroad board and the difficulties between the board and the general manager of the railroad. President Batlle replied that he would be able to assume the political responsibilities if this mission arrived in Uruguay and thought that they would be most helpful.

President Batlle then expressed his desire to obtain loans for the land reclamation in the Department of Rocha and improvements for the Port of Montevideo. Mr. Black replied that he understood these projects should receive serious consideration but the Bank could make no commitments at this time. Mr. Black said that the present negotiations for the Uruguayan electric and telephone company for a $25.0 million loan for hydroelectric installation at Baygorria, and the negotiations for a loan for $5.0 or $6.0 million are well underway but the Bank does not wish to go into negotiations for the land reclamation and port improvement loans until the previous two loans were almost ready for signature.

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[1] Source: Department of State, Central Files, 103–XMB/12–1355. Confidential. Drafted by Havemeyer.

[2] Officer of the International Bank for Reconstruction and Development.

[3] Julio A. Lacarte Muró, Uruguayan Ambassador to the United Nations.

President Batlle then asked Mr. Black if he would make a public release with respect to the President's request for the land reclamation and port improvement loans. (The Bank had already issued a press release with respect to Mr. Black's luncheon. The Bank is averse to making a release with respect to loans being considered and under negotiation.) Mr. Black agreed to make a press statement which was cleared with Batlle and Ambassador Lacarte (Enclosure A).[4]

(The Bank offered the Uruguayan Government an expert in bond floating and funding of government funds several months ago.) President Batlle then asked if it were possible to send a bond expert to Uruguay. Mr. Black said that he understood that there were local political problems involved were the Bank to send a bond expert to Uruguay which might result in political difficulties for President Batlle. President Batlle replied that he was able to shoulder this responsibility and hoped that the Bank could send an expert of this kind to Uruguay.

(With Enclosure A it appears that Batlle at least has received an indication of the IBRD's willingness to consider his two pet projects which should assist Batlle in his political problems in Uruguay.)

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[4] Not printed.

551. Despatch From the Ambassador in Uruguay (Patterson) to the Department of State[1]

No. 37 *Montevideo, July 25, 1956.*

REF

Dept's CircrTel 12, July 11, 1956; Joint State/DOD/ICA Message[2]

SUBJECT

Military Assistance Program Development[3]

Following consultation with Chief, United States Air Mission to Uruguay,[4] who likewise performs MAAG functions, Embassy officers are of the opinion that the outlook for the national economy of Uruguay, with especial reference to the ability of such economy to support an expanded military program, is even less promising than in 1955.

Over the past year, the deterioration in Uruguay's economy and finances has proceeded at an accelerated rate. Thus, the Uruguayan political-economic scene in the last two months has shown tightening of the general economic situation, increased pessimism in business circles, and growing labor and social unrest. Contributory factors included: (1) a near-paralysis of the legislative process which resulted from a split within the ranks of the Colorado Party and delayed legislative action on the proposed budget and other important economic matters; (2) the outbreak and continuation of a damaging strike in the meat packing industry; (3) dwindling supplies of imported raw materials and imported consumer goods that presaged decreased industrial production and further unemployment in some important lines; (4) still rising unemployment and weakening consumer buying power; (5) a further marked weakening of the peso; and (6) the failure of the Government to act energetically and constructively to contain the situation.

The peso has suffered a very sharp decline, the free market buying rate falling from 3.95 per dollar to 4.24, and reaching a new low.

The meat packing industry was extremely active until May 10, when workers went on strike for higher wages and other concessions. The Army assumed operation of the Government-sponsored Frigorífico Nacional in order to assure meat supplies for Montevideo. In the face of workers' refusal to do so, the Army also drove cattle to the plant from the city limits, enabling Frigorífico Nacional to process about 1,200 head daily after initiation of the strike and an estimated 30,000 head for the month. In order to fulfill a meat contract, the Uruguayan ship *Tacoma* was urgently chartered to carry 2,400 tons of frozen beef from Frigorífico Nacional to Western Germany and was loaded with 392 tons. Port workers thereafter refused to continue loading and threatened a general port strike if the Army was used to load. The contract had to be cancelled and German representatives reportedly claimed $180,000 in compensation. Although the workers previously had been unemployed for lack of slaughter of cattle, the strike came when adequate numbers existed and the nation urgently needed the foreign exchange that would have been provided by the German shipment.

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[1] Source: Department of State, Central Files, 733.5–MSP/7–2556. Secret.

[2] Circular telegram 12, actually dated July 10, requested that the Military Assistance Advisory Group, with Embassy participation, prepare 1958 budget estimates for military assistance requirements by taking into full consideration the recipient nation's "political-economic capabilities" as applied to defense costs. (*Ibid.*, 700.5–MSP/7–1056)

[3] For the text of the Military Assistance Agreement of 1953 between the United States and Uruguay, see 5 UST 197.

[4] Colonel Robert O. Mitterling.

A temporary split developed openly, primarily over the budget, between two factions of the Administration-controlling Colorado Party, thereby virtually paralyzing the Government's legislative machinery. The budget as a result still had not been approved at the end of May which marked the termination of the three-month period provided by the Constitution for consideration by the Assembly. Negotiations, however, were proceeding between the two factions in an attempt to reach agreement. Two possible alternatives were visible. One was the continuation of the old budget, which already had demonstrated its inadequacies through an impressive string of deficits. The other was that the projected new budget would have to be pushed through with such haste that insufficient time would remain to permit adequate study and consideration. Neither of the alternatives appeared altogether satisfactory.

1956 has been marked by an increasing tempo in labor unrest sparked by the persistent rise in the cost of living. Overshadowing all other conflicts was the Frigorífico strike above mentioned. Next in importance perhaps was the unrest among National Government employees whose plea for an immediate salary increase was not included in the new budget presented to the Congress February 28. Further signs of unrest were also seen in the pressure of the railworkers, bank workers and port workers for increased wages or other benefits. As was to be expected, the Communists were trying hard to make the most of all these difficulties.

It may be added that Uruguay has not even been able or at least willing to meet its subscription obligations as member in various international organizations despite the fact that Uruguay has long been an enthusiastic supporter of the United Nations and similar bodies.

Accordingly, the Embassy is of the opinion that the Uruguayan finances and economy will not support military charges in excess of those required for maintenance of existing forces vital for the preservation of order in a situation characterized by increasing popular dissatisfaction. This dissatisfaction is rooted in rising living costs, fomented by an increasing penetration by Communist or pro-Communist leaders into the tightly knit labor organizations of Uruguay.

Attention is particularly invited to (d) and (e) of FY 58 MDA Program for Uruguay[5] of MAAG's conclusions and recommendations indicative of the danger to United States interests and to the cause of hemispheric defense in the distinct possibility that the Soviet Union will endeavor to fill any gap in Uruguay's defenses not susceptible of provision by the Uruguayan Government or by the United States under the MDAP Program.

The Embassy confirms and supports the conclusions and recommendations of MAAG as outlined in MAAG's report above mentioned.

Jefferson Patterson

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[5] Not found in Department of State files.

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552. Telegram From the Ambassador in Uruguay (Patterson) to the Department of State[1]

Montevideo, October 11, 1956—11 a.m.

202. Reference Depcirtel 265, October 5.[2] Uruguay has no PL 480 program.

Until few months ago general program subject continuing sharp attacks by press organ government majority and occasionally by other segments press, Batlle Berres (formerly President now Counselor), Uruguayan Embassy Washington, Uruguayan section CICYP, and other local groups allegedly defending producer interests. Criticism charged unfair competition with Uruguay ("dumping") in foreign wheat market (not only Brazil) and with LA agriculture generally which allegedly is unable compete US selling terms and is suffering economic damage. Some effort apparently made make Uruguayan leaders anti-US Latin bloc this subject.

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[1] Source: Department of State, Central Files, 411.3341/10–1156. Confidential.

[2] Circular telegram 265 requested an Embassy report of the psychological and political reactions to the P.L. 480 program in countries receiving commodities under the program or competing with the United States for sales of such commodities. (*Ibid.*, 411.0041/10–556)

No evidence available of mass interest subject but above criticism reflected in Communist rag *Justocia* which regularly screamed "dumping", "Yankee imperialism" and general damage LA economy. Not known have been reflected by any public pronouncements Communist-affiliated labor groups. A few well placed government officials conceded privately no damage actually done Uruguay; they merely feared future consequences.

In recent months public criticism by government officials and organ majority largely disappeared. This due shortage foreign exchange, need stretching present supplies exchange, inadequate supplies cotton, tobacco, keep factories operating, and Embassy efforts explain program. High government officials now are seriously considering possibility purchasing cotton, tobacco and corn (see Embdes 255, October 5).[3] However even if NCG approves plan, prospects legislative ratification program not bright.

Embassy believes Uruguayan purchases above commodities (and possibly some others) would undoubtedly assist country present period economic distress by stretching out available short supply foreign exchange pending expected increased exports under August 13 decree.

Patterson

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[3] Despatch 255 from Montevideo discussed official Uruguayan interest in a P.L. 480 agreement. (*Ibid.*, 411.3341/10–556)

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553. Editorial Note

On October 25, the International Bank for Reconstruction and Development made a loan of $25.5 million to the Administración General de las Usinas Eléctricas y los Teléfonos del Estado (UTE). The loan was to help finance the construction of a hydroelectric power plant at Rincon de Baygorria on the Rio Negro. The project was expected to increase generating capacity in Uruguay by about one quarter. The loan documents were signed in Washington on October 25 by Julio A. Lacarte Muró, Ambassador of Uruguay on behalf of the Republic of Uruguay; Orestes L. Lanza, President of

UTE, on behalf of the borrower; and W.A.B. Iliff, Vice President, on behalf of the International Bank for Reconstruction and Development. Documentation is in Department of State, Central File 103–XMB. For additional information, see International Bank for Reconstruction and Development, *Twelfth Annual Report of the Bank, for the fiscal year July 1, 1956 to June 30, 1957* (Washington, 1957), pages 44–45.

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554. Memorandum From the Special Assistant to the Assistant Secretary of State for Inter-American Affairs (King) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, May 6, 1957.

SUBJECT

Uruguayan Trade Contacts with Soviet Bloc in 1956

(1) A Uruguayan firm was reported to have sold 300,000 pounds of wool to Communist China in mid-1955. About a year ago, reports were received that Communist China had contracted for the purchase of an additional 600,000 pounds of Uruguayan wool at world market prices.

(2) A treaty of commerce and navigation, a commercial agreement and a payments agreement were concluded with the USSR during 1956. These agreements are not yet effective, since they have not been ratified by the respective governments.

(3) Three economic agreements were signed with the USSR on August 11, 1956 providing for an increase in trade. The payments agreement included provision for a $4 million short-term credit in the case of payments imbalance.

(4) Early in the fall, the Uruguayan Government was reportedly studying but considered not likely to approve a proposed payments agreement with Communist China.

(5) During the year, Uruguay considerably increased its purchases from the bloc, especially cotton. A Uruguayan firm was granted $1.9 million in foreign exchange for imports of textile machinery from East Germany.

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[1] Source: Department of State, ARA Files: Lot 59 D 376, Uruguay 1957. Secret.

(6) A Czechoslovak industrial exposition was held in Montevideo in November. Czechoslovakia reportedly made overtures for a new trade agreement with Uruguay.

(7) Towards the end of the year, 2,700 tons of cotton, valued at $2.25 million, purchased from the USSR, arrived in Montevideo.

(8) A contract was reportedly signed on November 17 in Peiping under which Uruguay was to export more than $3.6 million of wool tops to Communist China.

(9) In an effort to balance its trade with the Soviet bloc, Uruguay established a network of inter-bank agreements with six bloc countries. (Uruguay had previously built up substantial balances in its favor as a result of Soviet bloc failures to provide commodities.) The inter-bank agreement and exchange regulations appeared at the end of the year to have resulted in some reduction in total trade with the bloc.

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555. Memorandum From the Officer in Charge of River Plate Affairs (Watrous) to the Deputy Assistant Secretary of State for Inter-American Affairs (Snow)[1]

Washington, June 21, 1957.

SUBJECT

Issues Between Uruguay and the United States

Political

Political relations between the United States and Uruguay are traditionally excellent. This has been true both because of a common devotion to democracy in theory and practice and because in the past Uruguay has made a point of seeking friendship with the United States as a measure of protection in relation to her large and powerful neighbors.

What political differences the two nations have are largely marginal and matters of emphasis rather than substance. Thus, Uruguayans are given to criticizing the United States for "supporting" dictators in Latin America and tend to take a somewhat holier-than-thou attitude toward our dealings with undemocratic regimes.

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[1] Source: Department of State, ARA Files: Lot 59 D 376, Uruguay Study. Confidential.

The reverse of this coin recently has been a feeling in United States circles to the effect that Uruguay, or more specifically the present Uruguayan administration, has been "soft on Communism." The Arbenz case, of course, provided a good talking point for this theory, although, for reasons set forth in a previous memorandum, I am not convinced that the charge of "softness" has always been kept in proper perspective.

If, as is often maintained, relations between the two countries have suffered somewhat in the past few years, my belief is that this has been caused less by differing political viewpoints than by specific irritants, mostly in the economic field. These are discussed below.

One difficulty stemming from Uruguay's political system is the slowness of Uruguay to ratify signed agreements, a process requiring the approval of both houses of Congress. Among agreements which have been pending in the Congress for a long time are an FCED Treaty, a General Agreement for Technical Assistance (consolidating several separate agreements), and an agreement for an industrial productivity program. In addition, Uruguay has still to renew the Air Mission agreement which expired in December, 1955.

In practice, while the delay in ratification has caused inconveniences, no serious consequences have ensued. Nevertheless, the laboriousness of the ratification procedure has on occasions been mistaken by other U.S. Government agencies for a lack of Uruguayan interest, and the Department has had to struggle against a tendency to cut down, or out, programs in Uruguay on this ground.

Economic

Wool Tops. The U.S. countervailing duty on Uruguayan wool tops, imposed by our Treasury in 1953, is probably the single greatest grievance Uruguay has against us. The duty was imposed because Treasury considered that under Uruguay's multiple rate exchange system wool tops were receiving a subsidy. Since the imposition Uruguayan wool tops have practically ceased to enter the United States.

The Uruguayans have several times attempted, unsuccessfully, to convince Treasury that under the latter's formula the duty should be removed. On the basis of an exchange reform of August, 1956, there is some reason to believe that the removal of the duty could now be justified. As soon as Uruguay sets two missing exchange rates, another attempt will probably be made. It should be added that there is heavy political pressure from U.S. wool manufacturers for the maintenance of the duty.

GATT Meat Items. As a result of negotiations at Annecy in 1949 the United States agreed to lower its duty on three meat items.

These reductions were held up at the time for technical reasons, following which pressure developed to have them not put in effect. They never have been. The Department has several times urged the Trade Agreement Committee to have these items proclaimed, but with no success.

P.L. 480 Program. Until recently Uruguay has been probably the most outspoken critic of our P.L. 480 program. Opposition has been expressed on the grounds that our "dumping" of agricultural products cannot fail to hurt Uruguay's exports. In point of fact, there is no evidence to support this theory other than the general argument that if the U.S. had not "dumped" Uruguay *might* have received higher prices.

Now that Uruguay is contemplating a P.L. 480 negotiation itself, it is likely that much of this criticism will die down; some resentment, however, will probably persist.

Loans. Despite the fact that Uruguay has not officially approached us on this score, the Embassy has consistently reported that Batlle Berres wants a dollar loan, and is resentful that we have not supplied one.

We have tried to indicate to the Uruguayans that we would be happy to consider a loan, but that, if it were of the stabilization type, Uruguay would be expected to institute some financial reforms; this condition Uruguay seems unwilling to face up to. Rather, they have approached New York banks and been turned down, thus increasing Batlle's pique.

The problem is complicated by the fact that, in present political conditions, Batlle probably would not want to ask Congress to approve a loan. Nor, if he did so, is there any assurance that Congress would do so.

Crossties. Almost three years ago the Uruguayan State Railroad, through intermediaries, contracted for over one hundred thousand crossties from a U.S. firm, A.F. Pylant. The ties were produced when, through a technicality, the order was cancelled, leaving Pylant facing bankruptcy.[2] He is unable to sell the ties elsewhere as they were produced and bored to peculiar Uruguayan specifications.

For practical reasons Pylant has no way of obtaining legal redress; yet, not having exhausted legal remedies, we cannot make a formal diplomatic claim on his behalf. We have, therefore, been urging the Uruguayan Government on grounds of equity to find some solution to the problem. There is a chance that the newly-installed Railroad Board may be sympathetic to this approach.

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[2] Documentation is in Department of State, Central File 933.712.

The case is badly tangled up in Uruguayan politics (which caused cancellation in the first place) and several U.S. Senators are active in pressing Pylant's claim.

Meatpackers Problems. During the past decade a diminishing cattle supply in relation to a growing population has led the Uruguayan Government to restrict the amount of meat which it has permitted the two U.S. meatpacking concerns in Uruguay to pack. In addition, Uruguayan price and wage controls have made the packers' operations unprofitable; to compensate for this the Government has paid a subsidy to the packers, although the subsidy has not always made up the deficit or been paid promptly.

The packers feel that the Government is sympathetic to their problems, but they still do not have a firm base for profitable long-term operations.

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556. Memorandum of a Conversation, Casa de Gobierno, Montevideo, August 12, 1957[1]

SUBJECT

Political Factors in Uruguay: Countervailing Duties; Air Force Mission Agreement Extension; Crossties Case

PARTICIPANTS

His Excellency, Arturo Lezama, President of the National Council of Government of Uruguay
The Honorable Roy R. Rubottom, Jr., Assistant Secretary of State for Inter American Affairs
The Honorable Jefferson Patterson, American Ambassador
James Espy, Esquire, Counselor of Embassy

At 5:00 this afternoon the Assistant Secretary of State, R. R. Rubottom, Jr.,[2] accompanied by Ambassador Patterson and Mr. Espy, was received in a formal call by President Arturo Lezama of the National Council of Government of Uruguay. Following the expression of amenities, Mr. Rubottom thanked the President for the very kind invitation to him to visit Uruguay. He was deeply appreciative of this opportunity to come here. President Lezama expressed his admiration for the United States and spoke of the "unbreakable" esteem and friendliness which Uruguay entertains for the United States as the leader of the free world and defender of democratic ideals and principles.

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[1] Source: Department of State, ARA Files: Lot 59 D 376, Uruguay 1957. Confidential. Drafted by Espy. Sent to the Department of State in despatch 143 from Montevideo, August 20. (*Ibid.*, Central Files, 110.15–RU/8–2057)

[2] Rubottom stopped in Uruguay while en route to the Buenos Aires Economic Conference, August 15–September 4.

Mr. Rubottom, in taking up the conversation, stated that as Assistant Secretary he tried to hold himself above questions of detail, so to speak looking down from a wide perspective upon relations between the United States and the Latin American countries. Thereby he hoped to be of greatest usefulness. Occasionally when necessary, however, he did interest himself directly in individual problems. He said that as he saw it from this perspective, there were only, in the vast field of close relations and friendly association that connected the family of American nations, a few small problems in the relations between the United States and Uruguay. He went on to say that he and the other officers of the Department of State were giving a great deal of attention to these problems, so much so that he had appointed, some eight months ago, a team of three experts to devote their time to studying means to solve these problems.[3]

Mr. Rubottom then stated that there was recognized in the Department of State the importance to Uruguay of the question of the countervailing duties on importation into our country of Uruguayan wool tops. This subject was being thoroughly studied and he wished to assure the President that everything possible was being done to remove the issue. During the last three months, a thorough examination has been made of the factors involved and it is hoped soon that the Department of State can approach the Department of the Treasury for action. Mr. Rubottom noted that the duties had already been reduced from 18 per cent to 6 per cent and he mentioned that originally the imposition of the duties was justified. However, the situation may have changed and possibly now something further could be done.

President Lezama expressed deep appreciation for this information and then discussed at some length the resentment and psychological effect that the imposition of the countervailing duties had created in Uruguay. He concluded that this may have been a small matter for the United States but for a small country like Uruguay it loomed very large.

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[3] The team included Livingston D. Watrous; Albert Post, Assistant Financial Adviser in the Office of Inter-American Regional Economic Affairs; and John T. Fishburn. They drew up five lengthy memoranda: "Uruguayan Labor," June 27, by Fishburn; "Uruguay, Economic and Financial Conditions and Prospects", July 26, by Post; and three memoranda by Watrous, "Communism in Uruguay," June 17, "Uruguayan Political Situation," June 18, and "Issues between Uruguay and the United States," June 21, *supra*. (Department of State, ARA Files: Lot 59 D 376, Uruguay Study)

President Lezama then ventured the statement that there were several questions which he had recently discussed with Ambassador Patterson. He alluded to their last meeting on June 28.[4] One of the points brought up was the question of the extension of the Air Force Mission Agreement.[5] He said that this was complicated by the fact that it was necessary for the Executive Power to submit an entirely new bill to the Uruguayan Congress for approval to enable the NCG to renew the Agreement. Such a project bill was now being prepared. The President expressed evident concern that the matter should have apparently been allowed to drift by the authorities who should have pushed it and stated that he would make it a personal interest.

The second problem concerned the terminated crossties contract. President Lezama stated that the majority of the National Council of Government had been in favor of doing something about this unsatisfactory situation and that they had held, since his conversation with Ambassador Patterson, three meetings with AFE. It was a legal question, however, and under Uruguayan laws the Government could not intervene. AFE was an autonomous entity and the Government could not tell it what to do. In turn, AFE's position was that it had twice extended the time for submission of a guarantee or bond for execution of the contract which the supplier of the crossties had on each occasion failed to meet. The guarantee was finally deposited in the United States the day after the final expiration of the time limit. This ended the matter as far as AFE was concerned. Besides, its contract was not with the American company itself but with a Uruguayan concern (Sociedad Reg) and there was also another intermediary in the United States. Mr. Rubottom said that he was so aware and that the name of the other intermediary was the New World Hardwood Company.

When queried on the possibility of arbitration, President Lezama said that this had been mentioned to AFE. It replied, however, that there was no one with whom it could arbitrate since it did not know the American supplier legally as it had no contract or relation with him.

Mr. Rubottom stated that he understood but that, nevertheless, there remained the question of equity. An American company was the innocent victim. It was natural that this should arouse a strong feeling of support on the part of political representatives in our country in the injured's behalf. He said that he was confident that President Lezama would understand the insistence of these American legislators in this matter. For his, Mr. Rubottom's part, he hoped that his hands would not be tied in dealing with our relations with Uruguay.

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[4] The memorandum of their conversation was sent to the Department in despatch 10 from Montevideo, July 2. (*Ibid.*, Central Files, 733.58/7–257)

[5] The status of the agreement was uncertain because of problems concerning the funding of compensation for Mission officers. Documentation relating to this matter is *ibid.*, 733.58 for 1955 through 1957.

Mr. Rubottom then suggested that possibly some sort of agreement or accord could be reached between the two governments which would provide for Uruguay's taking up the ties in question along with the purchase of other needed ones. He said that he thought that we should place all the cards on the table for everyone to see. President Lezama indicated a favorable reaction to this idea and stated that he thought it should be seriously considered but added that nevertheless AFE would have to be a party to the agreement. He repeated that the government could not impose its will on AFE as it also could not do on any other independent autonomous entity such as, for instance, the Tribunál de Cuentas, the organ that approved expenditures of government funds.

The conversation ended here and Mr. Rubottom then proceeded to one of the adjoining rooms in the Casa de Gobierno to call upon National Councilors Luis Batlle Berres and Alberto F. Zubiría.

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557. Notes of the Secretary of State's Staff Meeting, Department of State, September 9, 1957, 9:15 a.m.[1]

[Here follow a list of those present (23), an intelligence briefing, and discussion of matters unrelated to Uruguay.]

8. *Uruguay*—Mr. Rubottom said he was extremely discouraged over the poor political situation in Uruguay which is drifting into a potentially dangerous trend. He characterized this as one of extreme complacency, an unsound overdoing of the welfare state and a dangerous penetration of the government by Leftists and Communists. He noted mounting anti-US feeling.

[Here follows discussion of matters unrelated to Uruguay.]

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[1] Source: Department of State, Secretary's Staff Meetings: Lot 63 D 75. Secret. Drafted by Fisher Howe.

558. Memorandum of a Conversation, Montevideo, December 10, 1957[1]

PARTICIPANTS

Ambassador Jefferson Patterson
Mr. James Espy
President Arturo Lezama

Reference is made to Embassy D–556 of December 9, 1957,[2] in which on page 2, mention is made of a prospective appointment with President Lezama of the National Council of Government.

During this talk I expressed disappointment that the long-pending US-Uruguayan Treaty of Commerce, Friendship and Economic Development should have failed of action in this year's Legislature.[3]

President Lezama stated that he shared my sentiments.

Immediately thereafter President Lezama stated that he was engaged in a plan to make available for the use of the U.S. Air Force Mission to Uruguay the requisite 120,000 pesos. The President stated that this was, indeed, a small sum, in which observation I concurred adding that the officers and men of the Mission certainly spent more than 120,000 pesos in the course of a year for their own personal expenditures and those of their families.

The President stated that the currently anomalous position of the Air Mission must be regularized and that, indeed, he had been constantly on the telephone urging, in particular, Senators of various political sub-divisions to approve the measure. The President added that while he had received assurances that the Air Force Agreement would be approved in the course of the current month, he was engaged in an endeavor, by indirection, to obtain the funds in question from another source.

On my inquiring if the sole difficulty remaining in the way of the Air Force extension was a pecuniary one, the President replied affirmatively and emphatically, stating in response to another question that the presence of the Mission in Uruguay was highly desirable and desired.

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[1] Source: Department of State, Central Files, 733.58/12–1157. Secret. Drafted by Patterson. This memorandum and Documents 559–561 were sent to the Department of State in despatch 567 from Montevideo, December 11.

[2] Despatch 556 from Montevideo discussed possible methods for reallocation of funds to allow for continuance of the U.S. Air Force Mission. (Department of State, Central Files, 733.58/12–957)

[3] Reference is to technical problems concerning the Supplementary Protocol to the Treaty of Friendship, Commerce, and Economic Development between the Oriental Republic of Uruguay and the United States of America signed at Montevideo on November 23, 1949. Documentation relating to the negotiations is *ibid.*, 611.334/5–655.

Comment: I am of the opinion, accordingly, that President Lezama, the Minister of Defense,[4] and the Inspector-General of the Uruguayan Air Force[5] are all partisans of continuation of the Air Force Agreement. Discovery of a source of funds for its extension should shortly be discovered and it will then be implemented, probably as outlined in Embassy Despatch No. 556, above mentioned.[6]

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[4] Raúl Gaudin.

[5] Brigadier Danilo Trelles.

[6] The problem was resolved on January 23, 1958, when the Government of Uruguay issued a decree providing for payment of its share for the maintenance of the U.S. Air Force Mission. (Department of State, Central Files, 733.58/2–658)

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559. Memorandum of a Conversation, Montevideo, December 10, 1957[1]

PARTICIPANTS

Ambassador Jefferson Patterson
Mr. James Espy
President Arturo Lezama

In the course of a conversation, chiefly on other topics, I inquired of President Lezama as to the progress of the NCG bill introduced many months since in the Legislature requesting blanket authorization to conclude the PL480 Agreement with U.S. Government agencies.

President Lezama replied flatly that there was no hope for the measure, implying that too many vested interests were against it.

On my voicing that on the other hand I understood that importers of tobacco, cotton and maize were in favor of the bill, he stated that he, too, thought the measure would be one beneficial for the country, but his view had found scant echo in the Legislature.

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[1] Source: Department of State, Central Files, 733.58/12–1157. Secret. Drafted by Patterson.

560. Memorandum of a Conversation, Montevideo, December 10, 1957[1]

PARTICIPANTS

Ambassador Jefferson Patterson
Mr. James Espy
President Arturo Lezama

On my alluding to the Frigorífico problem presented by the imminent closure of the two American packing plants, Artigas and Swift, the President remarked that the problem was a serious one. He stated, however, that there was really no serious lack of cattle in Uruguay, or there would be no such lack, were there not contraband over the Brazilian border, and if a black market did not flourish in Canelones. He felt that at least the latter situation would be corrected by the new capital being supplied the Frigorífico Nacional, which would enable that entity to pay its bills.

At the present time the cattle producers were sending no cattle to the Montevidean "tablado", but were either holding them on the "estancias" or were selling them from the "estancias" to black market slaughterhouses.

The President added that he had also seen cattle exhibited at Fairs in the departmental towns, where there had been a good deal of buying and selling. He expressed himself as being somewhat mystified as to the destination of such cattle.

On my inquiring if the Commission set up by the NCG, of which he had informed me some weeks ago at the time of his reception of the President of the New York Stock Exchange, had rendered a report, the President replied negatively. He did not hazard any view as to what, if anything, the Uruguayan Government would do, once the plants should have definitively closed their doors.

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[1] Source: Department of State, Central Files, 733.58/12–1157. Secret. Drafted by Patterson.

561. Memorandum of a Conversation, Montevideo, December 10, 1957[1]

PARTICIPANTS

Ambassador Jefferson Patterson
Mr. James Espy
President Arturo Lezama

On my making some mention of wool tops, President Lezama said that he thought Sadil would remain closed, but rose to a defense of Uruguayan textiles.

I stated that I had had some suits of Uruguayan wool made up and would be glad to wear them in the United States during my forthcoming leave of absence.

Throughout our talk, the President showed a cordial disposition, expressed good wishes to us and our families for the holidays, and welcomed Mr. Espy in his capacity as Chargé d'Affaires ad interim.

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[1] Source: Department of State, Central Files, 733.58/12–1157. Secret. Drafted by Patterson.

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562. Memorandum From the Officer in Charge of River Plate Affairs (Watrous) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, December 26, 1957.

SUBJECT

Uruguay: Prospects for a PL 480 Program

With regard to your inquiry concerning a possible P.L. 480 program for Uruguay, the situation is as follows.

The Uruguayan Government in general, and Batlle Berres in particular, has long been the most vocal critic in South America of this Program. Early in 1957, however, Uruguayan proponents of an agreement persuaded the National Council of Government to discuss the possibility of making purchases from us under the law. At this time Batlle is reported to have stated that, although he had not changed his antagonism to the program, he would not stand in the way of an agreement in view of the drought conditions afflicting the country.

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[1] Source: Department of State, Central Files, 733.5–MSP/12–2657. Confidential.

Even under emergency conditions, however, the Uruguayan Government felt that political bickering would not allow Congress to ratify a completed agreement. The only hope was felt to be a blanket law authorizing the Administration to negotiate an agreement. The draft of such a law was submitted by the NCG to Congress on May 14 of this year. No action of any kind has been taken on it since.

Our Embassy has made various inquiries regarding the bill since that time, from which it has become increasingly apparent that with Uruguay's recovery from the drought and, perhaps more importantly, with Uruguayan politicians immersed in preparations for the 1958 elections, the bill is simply to be allowed to die a natural death. (The Congress is actually now in recess until March 15, at which time political pressures will undoubtedly be even greater than they are now). Ambassador Patterson raised the subject with President Lezama as recently as December 10; according to the Ambassador, "President Lezama replied flatly that there was no hope for the measure . . ."[2]

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[2] Ellipsis in the source text.

VENEZUELA

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND VENEZUELA[1]

563. Editorial Note

On January 4, 1955, Venezuelan President Pérez Jiménez informed Ambassador Fletcher Warren that he favored reopening the military staff conversations with the United States initiated in March 1951. The objective of these conversations was to ensure the security of the Venezuelan oil system through a combined United States-Venezuelan defense effort. (Department of State, Central Files, 731.5–MSP/1–455) The talks had been stalled principally because of other United States defense priorities and various technical problems relating to credit terms for Venezuela's payment for military equipment required for the defense effort. Preparations for the formal meetings with the Venezuelans began in February 1955 and continued throughout the year. Documentation concerning the deliberations of the Commander in Chief, Caribbean; the component commanders; the Army, Navy, and Air Force Mission Chiefs in Venezuela; and Embassy representatives is *ibid.*, Caracas Embassy Files, 1948–1956: Lot 64 F 14, 400 Defense Talks. Periodic progress reports on the preparations are *ibid.*, Central File 731.5–MSP for 1955.

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 1587 ff.

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564. Editorial Note

On February 26, the White House released a report on energy supplies and resources policy by the Cabinet Committee on Energy Supplies and Resources Policy, established by President Eisenhower in July 1954 to study the development of energy supplies in the United States. The report concluded that, in the interest of national security, the balance between imports of crude and residual oil and domestic production of crude oil should remain the same as in 1954. Accordingly, the importing companies were requested to restrict imports of petroleum into the United States on a voluntary, individual basis. Throughout 1955 and 1956, there was considerable debate in Congress over possible legislative restriction. Documentation concerning United States oil policy and Venezuelan imports is in Department of State, Central Files 411.316 and 831.2553 and *ibid.*, ARA Files: Lot 59 D 12, Venezuela and Economic—Oil 1957.

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565. Telegram From the Ambassador in Venezuela (Warren) to the Department of State[1]

Caracas, March 30, 1955—6 p.m.

311. Because overriding importance relations Venezuela, US impending action USA Senate respect restrictions USA importation oil[2] it seems advisable Embassy summarize its understanding Venezuelan situation and its implications.

1. [Garble] to this government's foreign policy is its realization interdependence USA–Venezuela because her oil, iron ore, industrial diamonds, strategic location and her need USA supplies and sea protection in case of war.

2. She also realizes her 5 million population one of five best USA customers buying more from US than selling US.

3. Her capacity buy USA depends directly her ability sell US.

4. She best example world today USA method doing business and is showroom for success our system.

5. Other Latin American nations criticize her for following our system.

6. Position Venezuela this respect due declared intention Venezuelan Government follow our system through foreign policy based on USA friendship.

7. Stability this government depends upon its oil revenues.

8. Oil revenues depend continued good USA market.

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[1] Source: Department of State, Central Files, 831.2553/3–3055. Confidential. Forwarded to the Special Assistant to the President for Economic Affairs, Gabriel Hauge, for information and distribution, as appropriate, within the White House.

[2] Telegram 290 to Caracas, March 28, reported strong support in the Senate for an oil import quota. (*Ibid.*)

9. Venezuela has indicated readiness cooperate give reasonable protection that market by voluntary restrictions.

10. Neither public nor governmental opinion will accept supinely USA imposition legislative restrictions and consequent curtailments to market for oil.

(A) Such contingency would force Venezuela take retaliatory action including denunciation USA Trade Agreement and declaration tariff increases.

11. Despite such retaliation public opinion may well bring about overthrow this government.

12. Any ensuing government would be more leftist, less friendly USA.

13. Such government might well nationalize oil and iron ore industry.

14. At any rate USA would (a) force a friendly government into camp those opposed private initiative capital, (b) lose outstanding example good oil company-government relationships, forfeit its showroom for USA system and its superiority in best Latin American market, and (c) retard or prejudice progress made in persuading other Latin countries such as Argentina, Peru and Brazil of advantages of participation private US interests in petroleum industry.

15. Venezuelan Government reluctant believe USA would upset this mutually advantageous relation even though coal and independent oil industry may need attention.

16. This government and people subconsciously unwilling believe their national prosperity and basis of this regime can be swept away by action of foreign leg of a legislative body.

17. If legislative restrictions[3] are imposed Embassy has no doubt Venezuela will immediately react with violent censure and retaliation.

Warren

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[3] Further documentation concerning possible legislative restrictions is *ibid.*, 431.006 and 411.316.

566. Memorandum of a Conversation, Department of State, Washington, June 14, 1955[1]

PARTICIPANTS

Messrs. Holland, Sparks, Hilton, Atwood, Dearborn, Davis

Mr. Holland expressed his concern over reports that the Venezuelan Government is taking a more pugnacious attitude in its differences with the U.S.; that the influence and prestige of the foreign oil companies is diminishing; and particularly, that the elements in the Government who favor its intervention in business are gaining in influence.

Based on Mr. Davis' study of the reports and despatches from Embassy Caracas, special reference was made to developments in the national steel industry (including the Caroni power project) and the petro-chemical, natural gas, oil, and aluminum industries. Brief reference was made to the factors of desire for power and graft.

Mr. Holland suggested that in order to take effective action to combat the unfavorable trend we should know who was responsible for it. It is his impression that in Venezuela possibly no more than 4 or 5 individuals determine policy of this sort and if we know what makes them act as they do we may be able to persuade them that such action is not in their best interest. After discussion of the problem the following course of action was agreed upon:

An instruction will be sent to Embassy Caracas[2] asking the Embassy for its views as to the key individuals in this situation and what makes them feel and act as they do as well as any other suggestions the Embassy may have to offer.[3] Upon receipt of this information we will formulate our procedures. Possible lines of action would be as follows:

1) Let those appropriate key Venezuelans know that if Venezuela ceases to be identified in U.S. minds with private enterprise, Venezuela will lose the battle against oil restrictions in our next Congress. It should be made clear that it is not the State Department, but Venezuela's friends in U.S. business and industry who decide this battle.

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[1] Source: Department of State, Central Files, 611.31/6–1455. Confidential. Drafted by Davis.

[2] Sent as instruction A–5 to Caracas, July 8. (*Ibid.*, 611.31/7–855) The Embassy prepared a preliminary list of key Venezuelans and sent it to the Department under cover of Warren's letter to Holland of September 15. (*Ibid.*, Holland Files: Lot 57 D 295, Venezuela) Later, another list was drawn up in cooperation with the U.S. Information Service and transmitted in despatch 474 from Caracas, January 27, 1956. (*Ibid.*, Central Files, 731.00/1–2756)

[3] Warren commented on this subject in a series of informal letters to Holland in August and September 1956. (*Ibid.*, Holland Files: Lot 57 D 295, Venezuela)

2) Advise key Venezuelans to use their funds, for example, to set up Venezuela's own Eximbank which could further the industrial development of the country, rather than sinking Government funds directly in investment industry. (This would not preclude assistance by our own Eximbank). Highway development would offer a highly constructive use for Venezuelan Government funds.

3) Get our Embassy in Caracas to tell us what industries it believes will next be invaded by the Venezuelan Government and then beat the bushes here for U.S. private capital to undertake whatever industrial development is necessary along this line in Venezuela.[4]

4) In the near future an OCB paper should be worked out to serve as a guide and directive for U.S. Government policy in this field.[5]

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[4] Instruction A–5 also included points 1–3.

[5] Reference is to "Analysis of Internal Security Situation in Venezuela and Recommended Action," June 13, 1956. (Department of State, OCB Files: Lot 61 D 385, Latin America) See Document 570.

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567. Memorandum of a Conversation Between Foreign Minister Otáñez and the Assistant Secretary of State for Inter-American Affairs (Holland), San Francisco, June 24, 1955[1]

SUBJECT

Venezuela: Petroleum; Government's Invading Field of Private Enterprise

I had a conversation with Foreign Minister Otañez in San Francisco on a number of subjects which are covered in another memorandum.[2]

I told the Foreign Minister that I would like to discuss the petroleum problem and made more or less the following statements to him.

Venezuela must understand that there is no possible way for the United States to give assurance that the regular attempts to restrict importation of Venezuelan oil will end. On the contrary, we can be sure that every year such an attempt will be made. The Executive branch of the Government has demonstrated that, consistently with its announced policies on trade, it opposes any such restriction. However, the ultimate decision lies in the hands of the Congress and the Executive does not control the Congress. The decisions of the Congress reflect, as they should in any democratic country, the prevailing thought among the people. The fact that thus far restrictions on importations of Venezuelan petroleum have been avoided is not due to the position of the Executive, although that position is well known, but is due, instead, to the fact that significant sectors of public opinion in the United States oppose any such restriction. These sectors include exporters who rely upon the important market for U.S. exports represented by Venezuela, private interests owning investments in Venezuela, and that growing sector of our public opinion which believes in a strong and expanding inter-American trade.

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[1] Source: Department of State, Central Files, 831.2553/6–2455. Confidential. Drafted by Holland. Otáñez and Holland were attending the Special Tenth Anniversary Session of the United Nations.

[2] Two other memoranda of conversation are dated June 24. One recorded a conversation on atomic agreements and loan and technical aid programs. (*Ibid.*, 611.3197/6–2455) The other concerned the residence in Puerto Rico of exiled opposition leader, Romulo Betancourt. (*Ibid.*, 731.00/6–2455)

The only really effective way for Venezuela to protect itself against restrictions on its oil exports is to strengthen those sectors in the United States who, whenever the issue is raised, throw their weight against the imposition of restrictions. The only way to retain and intensify the support of these groups is to convince the U.S. exporters that their own market in Venezuela will not be imperiled through Venezuelan trade restrictions; to convince U.S. investors in Venezuela that the Government's traditional reliance on the private enterprise system will not be abandoned for a policy of competing with or replacing private enterprise. If either of these two changes should occur, the surely foreseeable result will be that U.S. interests favoring restrictions on Venezuelan exports of petroleum will prevail in the next Congress, not because of any increased strength on their part, but because of a weakening of their opposition.

The Foreign Minister said that he fully agreed with everything that I had said; that Venezuela was firmly committed to a policy of reliance upon private enterprise, and that the Government had no intention to replace or compete with private businessmen.

I told the Foreign Minister that this pleased me because rumors had reached me with some insistency that the Government was inclining more toward a policy of invading the field of private enterprise, and that I felt sure that this would inevitably weaken those sectors in the United States who had traditionally supported Venezuela's position in the Congress. He replied that it might be true that from time to time the Government would undertake the creation of some new enterprise, but that it would do so only when private enterprise itself was unwilling to take the step, and that it would do so always with the intention of divesting itself of the enterprise as soon as it was self-sustaining and private interest demonstrated a willingness to take it over.

I said that this was encouraging and that it was inconsistent with a rumor which had reached me recently to the effect that when a group of private businessmen had proposed to the Government the establishment of a gas distribution system, the Government had refused the permit saying that it intended to establish such a system itself. He showed some confusion at this statement and said that perhaps the Government was unwilling to allow private investors to undertake a service which could not be furnished by them at a profit.

I then told the Foreign Minister that it seemed to me that Venezuela should constantly be on the alert for opportunities to create good will in the United States. I said that if the Government availed itself of such opportunities as might present themselves and if he would give me the necessary information, it would give the Department much pleasure to attempt to see that proper publicity were given. I said that, for example, if he could give me accurate information regarding the reported investment recently in Peru by the Venezuelan businessmen we would try to publicize that. I pointed out that Venezuela was known throughout Latin America as an exceedingly prosperous country and said that if it could make a gesture of extending aid to some other less fortunately situated country, that, too, could be made the basis for favorable publicity. I suggested that it might be possible for the Venezuelan Government to find some proper means for extending aid to Guatemala. He replied that the Government had, in fact, sent petroleum experts to Guatemala in order to assist the latter in its drafting of a petroleum code. He agreed to send me further information on this. He added that Venezuela had under study at the time a loan to the Haitian Government for the purpose of establishing air fields. I said that this, likewise, would be a good thing for us to publicize here.

I told him that the reserves of capital and trained technicians available to any government were invariably far less than those which private enterprise could make available. I pointed out that when a government establishes a business, it invariably means freezing a certain amount of the government's available capital and likewise tying up a portion of its limited reserves of technical people. On the other hand, if the government lends money to private enterprise to establish a business, that money is repaid and may be utilized anew for the establishment of another business through a second loan to other private investors. Such a policy has the additional advantage of attracting private capital to complement that supplied by the government and of utilizing technical people drawn from private industry rather than burdening the limited reserves of such people accessible to the government. I asked whether the Government of Venezuela had ever considered the establishment of a bank which would lend investment capital to its own citizens for the establishment of new enterprises rather than using its capital to establish those businesses itself. He said that Venezuela has experimented with a development corporation; that it had been a failure, but that its failure was in his opinion due to the fact that the corporation had tried to play the role of owner and operator and that no governmental institution was capable of doing that efficiently. He said that he would give further thought to the idea of loans to Venezuelan businessmen for these purposes.

At the conclusion of the conversation, I believe there was no question in the Foreign Minister's mind as to our concern about the recent trend in Venezuela, and that he fully understands our fears as to the repercussions that it might have on their petroleum problem. The conversation was cordial and the Foreign Minister professed to agree fully with everything that I told him.

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568. Telegram From the Ambassador in Venezuela (Warren) to the Department of State[1]

Caracas, November 25, 1955—5 p.m.

165. When I saw President Perez yesterday re my Washington visit I brought up several matters.

A. I expressed the concern in Washington lest Perez Government be headed for nationalization of industries. Citing steel mill, petrochemical project and Guarico Dam as special undertakings which Venezuela is attempting endeavor broaden industrial base and protect overall national interest, he assured me he, his government have given no thought such thing nationalization industries and asked me to transmit his reassurance to Department. (Comment: I felt he was sincere in his assurance but am glad matter was raised with him. FW).

B. I mentioned uneasiness USA possibility Venezuela might embark on series tariff increases American products. He stated emphatically understanding his government's mutuality USA Venezuela trade. He said we realize that if USA does not place restrictions our petroleum we should not raise tariff USA goods. Furthermore, he added, we have a trade agreement with you and we always keep that in mind.[2] He left no doubt with me re his position. (Comment: This Embassy is not sure President's views are shared by all his Cabinet. FW).

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[1] Source: Department of State, Central Files, 831.19/11–2555. Confidential.

C. Pointed out Embassy aware we no longer have contractual basis for operation USA Army mission here. President reassured me categorically. Said new agreement being prepared to contain certain changes. Venezuela must have and wants USA military missions. It intends ask for additional military specialists. Said signing new agreement solely matter time.[3]

D. Told President I had been asked Washington re oil concessions. He spoke positively their being granted. Declared whole picture under scrutiny. Said when matter made known Venezuelan public it must be crystal clear (Spanish: diafano). He did not so say but I thought his remarks indicated action soon.

Warren

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[2] Reference is to the Supplementary Trade Agreement, signed at Caracas August 28, 1952, and entered into force October 11, 1952. For text, see 3 UST (pt. 3) 4195.

[3] An agreement extending the Army Mission agreement of August 10, 1951, was effected by an exchange of notes at Washington February 11 and 15, 1957, and entered into force on the latter date. For text of the 1957 agreement, see 8 UST 211.

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569. Telegram From the Ambassador in Venezuela (Warren) to the Department of State[1]

Caracas, January 12, 1956—4 p.m.

246. Saw President Perez this morning for periodic conversation. Following were covered:

1. Congratulated him on press reports today that last night he announced Venezuelan Government's decision open doors for applications for oil concessions.[2] He reminded (see paragraph D Embtel 165 November 25) he had said they would be granted and only lack

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[1] Source: Department of State, Central Files, 831.19/1–1256. Confidential.

[2] At a meeting of the Supreme Council on Production, January 11, the Government of Venezuela announced its general oil policy as a first step toward actually granting concessions. The announcement stated that special benefits would be required from new concessionaires, including increased exploration and exploitation taxes, increased royalties, higher percentage of oil refined in Venezuela, and cooperation with the government in developing certain industries. Documentation relating to the announcement is *ibid.*, 831.2553.

time had prevented his making announcement prior New Year. He was obviously pleased decision and my felicitations.

2. He thought time opportune for renewal military staff conversations. I told him Department and CINCARIB would be informed. President added conversations must await return Minister Defense from 8 day visit Peru (see 4 below).

3. Expressed my satisfaction Venezuelan Government has given approval Inter American Defense Plan with reservations.[3] He decried importance reservations emphasized need desire Venezuela cooperate continental defense. I mentioned efforts already underway take care reservations.

4. I referred today press report Defense Minister Mazzei leaving for Peru. He said visit purpose laying corner stone monument Lima to Venezuelan revolutionary General Salom. (Peru Ambassador Garland was at President's palace and confirmed above saying Mazzei going because had been unable accompany President Perez Lima trip.)

5. Said I was sorry US firms[4] lost out on steel mill contract but hoped there would be other occasions when they would be considered and we could be helpful. He said Americans had lost out[5] because guarantee terms were "a bit stiff" for a country priding itself on paying and possession unusual resources for paying.[6] I said understood Venezuelan idea and as American tried explain position US firms. I brought out guarantee terms were not those US Government but those of industrial banking firms. He said understood but clear he thought they should have been able find way.

6. Gave him essence information contained Department's A–91 December 6 re *Whisper* article.[7] Stressed Department had studied matter see whether there anything it could do and found there was not. He commented he understood. I believe incident now passed.

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[3] These reservations indicated: (1) that Venezuela's contribution to continental defense would be limited to the defense of its own territory; (2) that arrangements with European powers for the security of colonies in the Western Hemisphere were the primary responsibility of the American states nearest to those colonies; and (3) that the Caribbean-Panama-Galapagos defense sector, which included Venezuela, should also include British Guiana. Documentation on this subject is *ibid.*, 710.5.

[4] Reference is to the International General Electric Corporation. Documentation concerning the steel mill contract is *ibid.*, ARA Files: Lot 58 D 564, Summaries.

[5] The Italian firm Fiat was awarded the contract.

[6] These terms would have required the Government of Venezuela to post collateral in New York banks for an estimated $60 million of purchases in the United States, utilizing some of the dollar balance in the Venezuelan Central Bank.

[7] Reference is to an article critical of Pérez in the December 1955 issue of *Whisper*. Documentation concerning the matter is in Department of State, Central File 731.11/11–2555.

7. I did not mention Manger candidacy[8] considering it preferable he receive bad news first from Minister Foreign Affairs.

8. I mentioned again that military mission contract not yet renewed. He reassured me saying delay due simply press other matters. He was very complimentary re work mission saying he informed by his military they do more than they required do.

Comment: Reference 5 *supra.* I took opportunity suggest President that whenever I might find here some authority credit finance guarantees of calibre Burgess, Black or Waugh I would like bring him to President for a personal conversation re these important subjects. He indicated would welcome such opportunity. I can telephone him whenever I have such an authority.

Warren

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[8] Reference is to William Manger, candidate for election to the post of Secretary General of the Organization of American States. Documentation on Venezuelan support of Manger is *ibid.*, 361/12–2655 and 364/1–2456.

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570. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Acting Secretary of State[1]

Washington, June 1, 1956.

SUBJECT

OCB Paper[2] on Venezuela Under NSC Action 1290–d[3]

Discussion:

As you are aware the internal security of Venezuela is important because of the strategic value of its oil and iron ore and its geographic location. The Government of General Pérez Jiménez, which depends mainly on a flourishing economy and the continued support of the Army, appears stable despite some Army dissatisfaction with extensive graft and brutality. The Government is basically anti-communist.

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Latin America 1956. Top Secret.

[2] Reference is to the May 29 version of the OCB paper, "Analysis of Internal Security Situation in Venezuela and Recommended Action," dated June 13, 1956. No copy of the May 29 draft has been found in Department of State files.

[3] This action, taken at the 229th meeting of the NSC, December 21, 1954, established a program aimed at improving internal security (constabulary forces, etc.) and destroying Communist apparatus in free world countries regarded by the United States as vulnerable to Communist subversion. See the Memorandum of Discussion at the 229th meeting of the NSC in *Foreign Relations,* 1952–1954, vol. II, Part 1, p. 832.

The analysis of internal security conditions in Venezuela indicates that the communist parties have been outlawed, the total number of communists is not large and their activities are restricted. The internal security forces of Venezuela are quite effective against communists whenever these are believed to threaten the stability of the present government. Principal weaknesses are the Government's concentration on suppression of the political opposition (frequently mislabeled communist) rather than on the real communists, failure to recognize the danger of permitting communists to entrench themselves in labor, and inadequate knowledge of the organization and capabilities of the underground communist movement.

The principal internal security agency (SN) and its Director, Estrada, have become symbols of intelligence activity and quite ruthless repression directed chiefly against domestic political opposition, both civilian and military, and have incurred the enmity not only of many important civilians but of important military leaders as well. Thus, any action which identifies the U.S. with SN may damage our relations with important elements in Venezuela, whether or not such elements are vocal at present.[4] . . .

. . . .

Recommendation:

That you move approval of the paper by the OCB subject to the adoption of paragraph 54c or, if that is unacceptable, then paragraph 54b.[5]

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[4] The OCB Working Group was split on the recommendation for a survey of the Venezuelan Department of National Security (SN), headed by Pedro Estrada. The positions were set forth in paragraphs 54a, 54b, and 54c. Documentation concerning the interagency split is in briefing papers prepared for the Acting Secretary of State, May 31. (Department of State, OCB Files: Lot 62 D 430, Latin America 1956)

[5] There is no indication on the source text that it was approved by Hoover.

571. Excerpt From Informal Notes of the Meeting of the Operations Coordinating Board, Washington, June 6, 1956[1]

1290–d Paper on Venezuela

There was discussion of the OCB 1290–d paper of May 29. Mr. Gordon Gray opposed the idea of stimulating the Government of Venezuela to request a survey of the Venezuelan national security organization. Mr. Hollister said he also was not favorably impressed with the need for such a survey and that he was strongly opposed to the proposal that ICA be asked to pay for it. He said that, if the Venezuelan Government spontaneously asked for a survey, ICA would not object to its being undertaken, but the Venezuelan Government should pay for it.

Mr. MacArthur spoke along the lines of Mr. Holland's memorandum of June 1 and said that while the Department of State did not think, on balance, that a survey was necessary, it could not agree to such a survey except under the circumstances set forth in paragraph 54c of the OCB 1290–d paper.

Mr. Dulles said he was not fully briefed on this as he had spent the morning at the Army War College at Carlisle, Pennsylvania. He had been under the impression that the Venezuelan Government had in fact requested a survey, and since this was not the case, he was disposed personally to agree with Mr. Gordon Gray that the Venezuelan Government not be stimulated to ask for such a survey and that this proposal be dropped. He was also impressed with the political considerations involved which Mr. MacArthur had outlined. He said, however, that before definitively agreeing to drop this project, he would like to check with his people, and it was agreed that he should do so and that the item would come up again for consideration at the OCB meeting next Wednesday.[2]

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Latin America 1956. Secret.

[2] The survey proposal was dropped, and the OCB paper was approved, as revised, at the Special Meeting of the Operations Coordinating Board, June 13. (*Ibid.*, Venezuela)

572. Memorandum of a Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and the Venezuelan Ambassador (Gonzalez), Washington, June 7, 1956[1]

SUBJECT

Venezuelan Matters

The Ambassador said that shortly his Government would probably call in the United States Ambassador and state that it would be impossible for President Perez Jimenez to attend the conference in Panama.[2] The grounds given would be that it would be essential for him to be in Caracas on account of military celebrations. The Ambassador said that the real reason was that the military group around the President felt that somehow it would diminish his prestige if, being *the President* in Venezuela he were to go to Panama where he would be only one among many presidents. The Ambassador said that he felt this was a sad mistake; that he had done everything that he could to oppose it, but he feared the decision might go against him.

We talked about other matters; then he brought up again his feeling that his Government was making a mistake regarding Panama. I said that I agreed with him and went on to tell him why.

I pointed out that Venezuela has a greater interest than any other Latin American country in the preservation of the U.S. policy of protecting the existing access of Latin American products to our markets. While some Latin American countries come under fire in the Congress every few years, Venezuela can count on the fact that every time Congress assembles the danger will exist that legislation could be passed restricting the access of her petroleum to the U.S. market. The persons in the Executive Branch whose opinion weighs most on this issue are, of course, the President and, probably, the Secretary of State. I said that no decision had been made as to whether Secretary Dulles would attend the meeting, but I said that this was a possibility. I pointed out that Dr. Milton Eisenhower would be present and recalled to the Ambassador his interest in Latin American affairs. I said that, under all of these circumstances, in my judgment, few things would be as important to Venezuela as to establish a personal relationship between their President and the persons whom I had mentioned, particularly since it appeared that

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Venezuela. Confidential.

[2] Reference is to the Meeting of the Presidents of the American Republics, July 22–24; see vol. VI, Documents 109 ff.

President Eisenhower might well be our President for an additional four years. Thus, it seemed to me, that for President Perez Jimenez not to attend the meeting was, indeed, an error from the Venezuelan point of view.

The Ambassador expressed strong agreement with me and said that he was going to renew his efforts to persuade President Perez Jimenez to attend the meeting.

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573. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Venezuela (McIntosh)[1]

Washington, June 21, 1956.

Dear Dempster: I have received your letter of June 11 regarding the false rumors of trouble in Venezuela and I appreciate your thoughtful appraisal of the situation in Venezuela as it affects the stability of the government.[2] I am sure that large scale graft and personal rivalries for power are the outstanding weaknesses of this, and of many other, dictatorships. So far President Pérez Jiménez appears to have shown considerable skill in eliminating one threat at a time to his control of the country but the sum total of the persons he alienates becomes an increasingly important factor in itself. We shall continue to follow with interest your despatches and other reports on the subject.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Venezuela. Secret. Drafted by Davis. Dempster McIntosh was confirmed by the Senate as Ambassador in Venezuela on March 28, and presented his credentials to the Government of Venezuela on April 26.

[2] McIntosh's letter from Caracas reported that "many thoughtful people here are of the opinion that the large-scale corruption which appears to be fairly widespread among civilian government officials or friends of the government, and also among many military officers . . . is the greatest single source of danger to the present government of Venezuela." In his letter McIntosh concurred in that opinion, and added: "However, in a dictatorship, even a benevolent one, there are always present, actually or potentially, forces of discontent or of personal ambitions which sometimes cannot be controlled and therefore, although the present situation certainly appears to be quiet, I would not personally assume the responsibility of guaranteeing that the individuals who control the present government in this country are assured of remaining in power for an indefinite period of time in the future although they will probably do so." (*Ibid.*)

With best wishes,
Sincerely,

Henry F. Holland[3]

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[3] Printed from a copy which bears this typed signature.

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574. Memorandum of a Conversation, Embassy Residence, Panama City, July 23, 1956[1]

PRESENT

The President	President Perez Jimenez
The Secretary of State	Foreign Minister Arismendi
Dr. Milton Eisenhower	
Asst Secy Holland	
Mr. Bernbaum	
Mr. Neal	
Lt. Col. Walters	

President Perez Jimenez opened the conversation by thanking the President for receiving him and expressing his satisfaction at seeing the President looking so well. The President said that considerable enthusiasm had been shown during the meeting the previous day but that he felt that the speeches had been interesting and that the meeting was a useful one.

The President of Venezuela said that he felt that it was valuable as a first contact between the Chiefs of State and that he agreed with what the President had said that such meetings were useful. After preliminary contacts further meetings could be helpful.

The President said that he was very happy that the Venezuelan President had been able to attend the meeting. He had sent Mr. Holland down to say how important he felt this meeting was. The President of Venezuela said that this was a great honor and had convinced him he should come.

The Secretary of State then said to the President that President Perez Jimenez had produced more than oratory on the previous day, he had offered to "put cash on the line." The President said that he much appreciated this gesture on the part of Venezuela.

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[1] Source: Eisenhower Library, Whitman File, International File. Secret. No drafting information appears on the source text.

President Perez Jimenez said he felt that besides talk there was need for something concrete. He said that the speeches had been very long the previous day and that the South Americans had much to learn from the United States in this respect; that is, less talk and more concrete performance.

Asst Secy Holland said that the Venezuelans did not have much to learn in this respect. A year ago when he had been in Venezuela they had shown him a mountain and told him that they wanted to build a cable car up the mountain and a hotel at the summit. He had felt that this was something that might some day come to pass, but when he had been in Venezuela two weeks ago the cable car was already built and ten stories of the eighteen story hotel were already up.

President Perez Jimenez said that this was true but that they still had much to learn from the United States.

The President then referred to the allusion in his speech of the previous day to the benefits that might accrue to human society from nuclear science in the fields of power, medicine and agriculture. Nuclear power on a competitive basis was probably still some years away, yet there were areas where there was no other possibility of furnishing power and if there was no alternative source then nuclear power was the only possible answer. In the field of medicine great strides had been made in locating brain tumors through the use of radioactive isotopes. There were other uses for these products. He felt that every doctor should attend a course on the contribution of nuclear science to medicine. In the field of agriculture it could be determined whether more or less fertilizer was required to obtain maximum production. This science opened up whole new perspectives.

President Perez Jimenez said that they had had many contacts with U.S. experts in this field thanks to the good will of the U.S. Government and that they had an institute which studied these matters in Venezuela, this was the Neurological Institute. The President expressed his satisfaction at this.

President Perez Jimenez then said that within their own Venezuelan framework they had found a system which they believed was effective because it "took the wind out of the sails" of the communists. Of course in some cases repression was necessary but they felt that this should be resorted to only as a last measure. More effective was giving the working class more than the communists promised. He recalled that in 1945 there had been troubles in Venezuela and that the embittered workers had sacked the Paraiso Club which to them was a symbol of advantages enjoyed by the upper class. Today alongside of the Paraiso Club was the headquarters of the Labor Union, which was much more magnificent than the Paraiso Club, and he added humorously that if there were other disturbances it would probably be the members of the Paraiso Club sacking the Labor Union headquarters.

The President said that in the United States also the labor unions had fine headquarters. He knew of a recent case where a branch of one of the unions had paid a million dollars for a building site.

President Perez Jimenez then repeated his conviction that "taking the wind out of the communists' sails" was the most effective means of combatting them. Their efforts now tended towards creating trouble between the United States and the countries friendly to it.

President Eisenhower then said that the communists were now preaching nationalism rather than their old style internationalism, and the Venezuelan President said that this form of communism was perhaps the most dangerous one.

Secretary Dulles then said that the declaration of solidarity against communism[2] had been adopted at the Caracas conference; and the President said that we had tried to write a citation that would express what we thought of the fine work that the Venezuelans had done in this connection.

The President and President Perez Jimenez then spoke briefly of their experience in the military and civilian spheres of activity. They agreed that it was not sufficient to issue orders. Their execution had to be checked constantly.

The Venezuelan President then indicated that he would be delighted to have his picture taken with the President and repeated his desire for close and friendly relations with the United States; and the President expressed the same disposition towards Venezuela.

The President then escorted President Perez Jimenez to the door of the Embassy where photographs were taken.

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[2] Reference is to Resolution XCIII, entitled "Declaration of Solidarity for the Preservation of Political Integrity of the American States Against the Intervention of International Communism," approved on March 28, 1954, at the Tenth Inter-American Conference which met at Caracas, March 1–28, 1954. For text of the resolution, see *Tenth Inter-American Conference: Report of the Delegation of the United States of America with Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 156–158. For documentation on the conference, see *Foreign Relations*, 1952–1954, vol. IV, pp. 264 ff.

575. Memorandum of a Conversation, Department of State, Washington, August 28, 1956[1]

SUBJECT

Sale of Arms for Credit to Venezuela

PARTICIPANTS

G—Mr. Robert Murphy
Mr. Gordon Gray, Asst. Secy of Defense (International Security Affairs)
E—Mr. Thorsten Kalijarvi
Capt. Daniel Stuart, Office of Asst. Secy of Defense Gray
ARA—Mr. Henry F. Holland

Mr. Holland stated that the problem was whether to sell some 200 to 400 million dollars worth of arms to Venezuela on credit. He described the history of the staff talks with Venezuela and said that he understood that it was possible that we had made a commitment to the Venezuelans in the course of those talks to give them credit of three years and to consider sympathetically longer terms than that.

Weighing in favor of granting the credit, Mr. Holland continued, were:

(1) The necessity for fulfilling any commitments which we may have made, and

(2) The desirability of achieving any genuinely military objectives that we might have in mind. In that connection Mr. Holland felt that no arms were needed in order to maintain internal security in Venezuela; the danger which the government faces is that of a palace revolt by the armed forces, not of any uprising from the people themselves. Any arms which the government might want for internal security are probably really wanted in order to satisfy the armed forces.

Weighing against the sale of these arms is the fact that a substantial increase in the armed strength of Venezuela will surely set off a chain reaction leading to arms increases in Colombia, Peru, Ecuador and Chile. The same chain reaction would extend through Brazil and Argentina.

Mr. Gray said that he was not sure whether the proposal of credit had been authorized by Defense and, if so, whether it had in fact been communicated to the Venezuelans. He was concerned about the source of any funds which might be lent to the Venezuelans to make arms purchases, since such funds might come out of the appropriations to the various armed services.

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[1] Source: Department of State, Central Files, 731.56/8–2856. Top Secret. Drafted by Holland.

It was finally agreed that Mr. Gray would inform himself further of the facts and that we would meet again, probably next week.

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576. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, September 10, 1956.

SUBJECT

Pending Problems with Venezuela

In view of the current interest in the Suez situation, its possible implications for the free world's supply of petroleum, and Venezuela's position as a leading supplier, this paper provides information on pending problems that might affect adversely our good relations with Venezuela.

Activities of Venezuelan Exile Against Venezuelan Officials

President Pérez Jiménez and other officials have expressed extreme displeasure over the activities of Mariano Arcaya, a Venezuelan exile residing in New York City. Arcaya instituted separate actions in the U.S. courts against Venezuelan Consul General Páez in New York and Venezuela's Director of National Security, Pedro Estrada. Arcaya also allegedly has written to senior Venezuelan military officials, urging their action against the government. Regarding the two libel suits, we have cooperated with the Venezuelan Government in informing the court of the Consul General's diplomatic status; we are examining a copy of the complaint filed against Estrada, to determine whether we might seek to have the action stopped. We have examined a signed original letter allegedly written by Arcaya to Venezuelan military officials but found no violation of U.S. laws. (See Tab A.)[2]

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[1] Source: Department of State, Central Files, 731.00/9–1056. Secret. Drafted by Carl E. Bartch of the Office of South American Affairs.

[2] Not printed. Additional documentation on the Arcaya case is *ibid.,* 711.31.

Residence in Puerto Rico of Rómulo Betancourt; His Alleged Complicity in Plot

The President and other officials have renewed their objections to the residence in Puerto Rico of ex-President Rómulo Betancourt, head of the outlawed opposition party Acción Democrática. An official statement released on August 9 claimed Betancourt directed a recently discovered plot to assassinate President Pérez Jiménez. Our Embassy expressed surprise that the allegation that the plot was directed from Puerto Rico was made public without prior consultation with us, and invited the submission of evidence of Betancourt's complicity. (See Tab B.)[3]

Venezuela's Request for Military Equipment

During the Military Staff Talks concluded in March, Venezuela requested a substantial quantity of U.S. equipment over a period of ten years, with repayments from 7-1/2 to 10 years. Venezuela believes we have made a commitment to supply the equipment, and her ratification of the Results of the Talks is contingent upon substantial compliance. Venezuela's request is under consideration with Defense. (See Tab C.)[4]

Conclusion

The military equipment problem poses the greatest strain on our relations with the Venezuelans, who view our action in this matter as an indication of whether we really want good relations.

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[3] Not printed. Additional documentation on the Betancourt case is *ibid.*, ARA Files: Lot 56 D 685, Betancourt, Romulo.

[4] Not printed. The concluding paragraph of Tab C reads: "At the Staff Talks, the U.S. Military representatives told the Venezuelans that the U.S. is prepared to sell military equipment for cash or on credit terms of up to 3 years and to consider on a case by case basis Venezuelan requests for credit terms of more than 3 years. The Venezuelan Government considers that the U.S. military representatives made a commitment to sell equipment on credit." Additional documentation is *ibid.*, Central File 731.56.

577. Telegram From the Acting Secretary of State to the Embassy in Venezuela[1]

Washington, October 11, 1956—8:08 p.m.

181. Under Secretary last week told Perez de la Cova[2] imports Venezuelan crude oil scheduled second half '56 considerably over first half and seem indicate continuance this trend extending 1957. As result certain amount pressure for removal Venezuela from favorable position enjoyed with Canada. Assured Perez he did not think such action forthcoming since he knew Venezuela would cooperate voluntarily reduce imports as had in past. Told Perez no danger such action as long as Venezuela continues cooperate.

Perez reports he cabled Minister Mines[3] who called in producers discussed means reducing imports; was assured by major producers of cooperation.

Perez Oct. 9 informed substance draft policy statement due release later this week[4] recommending continuance exemption from import restrictions Venezuelan crude, but latter to conform general import objectives. Planning include in statement reference to Venezuelan record cooperation. Although uninstructed Perez confident his Government and producers will cooperate.

In any conversations you should stress our appreciation traditional cooperation evinced Venezuelan Government and industry and express confidence our objectives will be achieved by voluntary action and that Venezuela will not be placed disadvantageous position vis-à-vis Middle East.

Hoover

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[1] Source: Department of State, Central Files, 411.316/10–1156. Confidential. Drafted by Bartch and initialed by Rubottom.

[2] Carlos Pérez de la Cova, Minister Counselor for Petroleum Affairs of the Venezuelan Embassy.

[3] Edmundo Luongo Cabello.

[4] The Presidential Advisory Committee on Energy Supplies and Resources Policy released its statement on oil imports on October 17.

578. Letter From the Director of the International Cooperation Administration (Hollister) to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, October 29, 1956.

DEAR GORDON: In your letter of October 9, 1956 (I–16,421/6),[2] you set forth certain proposals with regard to providing reimbursable military assistance to Venezuela and requested my reactions and concurrence to certain of the details involved in those proposals. You also indicated that we might discuss this matter further and I believe that this would be desirable.

Because the proposals are highly complicated I feel that these discussions, in which I think Deputy Under Secretary Murphy should participate, would be greatly facilitated if they were based on explicitly stated, common assumptions and focussed on a selective list of previously identified, precisely stated issues. I am therefore taking the opportunity provided by this letter to set forth (a) certain understandings, and certain assumptions deriving therefrom, which, from the material available to me, seem to underlie the proposed Venezuelan program, and (b) those specific questions which I believe must be answered if we are to reach a sound Executive Branch position with regard to these proposals. Moreover, in order to bring the whole problem together, I am including in this letter those assumptions and questions which are of primary concern to the Department of Defense but also those on which the Department of State should provide the guidance. By separate memorandum, copy of which I enclose,[3] I am asking Deputy Under Secretary Murphy to consider these latter assumptions and questions prior to our proposed meeting.

I am assuming at the outset that the Joint Chiefs of Staff and the Department of Defense have determined that, from a military standpoint, the designated strategic areas and installations in Venezuela are essential to the security of the United States and that attainment of the force goals negotiated with Venezuela is essential to the accomplishment of the U.S. objectives in that regard. These assumptions appear warranted by statements in the exchange of correspondence between the Departments of State and Defense on this subject. In view of these assumptions I have also assumed that, barring some unforeseen turn in world events, the following two conclusions are correct; first, that the achievement of these objectives is of such importance that the Department of Defense is prepared to make available, and at dates reasonably coinciding with Venezuelan expectations, the kinds and quantity of equipment required to outfit the proposed Venezuelan forces; and, second, that both Departments of State and Defense believe that this importance would justify the provision over a period of ten years of a minimum of $180 million in military assistance, and even though, because of the limited availability of total military assistance funds relative to the total of high priority military aid requirements, fulfillment of the Venezuelan commitment might have to be at the expense of, or cause a delay in, meeting these other high priority requirements. These several assumptions are so central to the task of arriving at definitive answers to the proposals that their validity should be established and any doubts concerning them raised and dealt with now.

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[1] Source: Department of State, Central Files, 731.5–MSP/10–2956. Top Secret.

[2] Gray's letter proposed a fiscal year 1957 Military Assistance Program for Venezuela to finance sales of equipment to that country and proposed that the Executive branch request Congressional consideration, as part of the fiscal year 1958 Mutual Security presentation, of a revolving fund to finance such programs in the future. (*Ibid.*, 731.5–MSP/10–956)

[3] Not printed.

My first group of questions has to do with the possible consequences to the Mutual Security Program which might grow out of the precedent-setting nature of these proposals. In this connection I note that Mr. Murphy, in his letter to you of April 2, 1956, alluded to the concern of the Department of State over the possible adverse effects of instituting a large military aid program for Venezuela. Specifically, I believe the following questions with regard thereto should be considered by Mr. Murphy and you:

1. To what extent could the Venezuelan program be expected to generate requests from other Latin American countries for aid, either on a grant or reimbursable basis, which is substantially above the levels currently being provided or which calls for types of equipment different from those now being supplied?

2. Would the Department of State, from a political viewpoint, and the Department of Defense, from a military viewpoint, consider it important for the U.S. Government to meet such future requests? In this regard, I do not believe that we can fail to consider the total magnitude which such requests might reach and the consequences flowing therefrom. (Are we prepared to significantly increase our requests to Congress for funds for providing military assistance to Latin America even if on a reimbursable basis; can we assume that all such requirements which might be stimulated by the Venezuelan proposal could be met on a reimbursable basis; would Defense face any special problems in allocating military matériel to meet this requirement if it reached significant proportions without concurrently limiting equipment availability to other MDAP recipients, etc.)

3. What would be the political and economic effects within Latin America of meeting such additional requests if made?

4. Irrespective of the answers to 1, 2 and 3 above, have we already passed the point of no return in negotiations with Venezuela so that it would be undesirable from a political point of view not to

proceed with a program despite the precedent which it may represent and the disadvantages that will accrue therefrom? If so, does the Defense proposal represent the best compromise between meeting Venezuelan expectations and U.S. policy objectives both of short-range as well as a long-range nature?

My second group of questions has to do with a further definition of the nature, and a consideration of the adequacy, of the Venezuelan proposal as such. They are:

1. Assuming that the cost of the matériel requested may be as high as $400 million while the proposed Defense offer would cover only $180 million of the total, it would appear important to arrive at some understanding as to the U.S. position if the Venezuelan Government, upon being advised of the actual value of the equipment, should insist on financing arrangements over and above the $180 million before agreeing to proceed with the program. Is it clear that the Venezuelans would find the offer acceptable even though it represents such a significant reduction from their original request?
2. Is it proposed that the U.S. accept at this time what amounts to a 10-year commitment which could require as much as $180 million of U.S. appropriations, explicitly informing the Venezuelans of this fact? Precisely what form would it take and how, if at all, would it be qualified?
3. Do we have a clear concept of the terms of repayment to be required; whether interest is to be charged; how large a downpayment would be required and other such details connected with the implementation of the proposed programs? If not, can we assume these details, however intrinsically important in and of themselves, do not necessarily have an impact upon the acceptability of the proposal to the Venezuelans, and so do not need to be considered by the U.S. in advance of making the basic proposal to the Venezuelans?

I recognize that the foregoing questions are related in many respects to the recommendation embodied in the Defense proposal for the future establishment of a revolving fund which would have as one, but presumably not its sole, objective, the meeting of these Venezuelan requirements. I should like to discuss this recommendation separately for the moment.

The idea of a special fund to finance military purchases has been discussed in a general way from time to time in the past. However, no firm proposal has ever materialized, and I think we should now discuss such a proposal in concrete and detailed, rather than in abstract, forms. We need, and I understand that your staff has been working on, a specific practical plan, thoroughly developed, which would form the basis for recommendations to the Congress, and until this has been done I would question the advisability of basing a proposal to another government solely on the assumption that such a fund will be sought. Because the development of such a plan is obviously the kind of complex and unwieldy problem that does not readily lend itself to solution through exchanges of correspondence and will undoubtedly require detailed staff level work, I suggest that a State–Defense–ICA working group be established to consider the problem of such a special fund. If you agree that such a working group is advisable, I would appreciate your designating a Defense member at your earliest convenience.

If, as postulated above, a decision concerning a revolving fund cannot be quickly reached, there is the question of whether this need delay consideration of the proposals for a Venezuelan program. I gather from your letter you do not believe that this would be the case but that, on the contrary, you would propose to proceed on the assumption that, even if it should finally be decided not to establish a revolving fund, the Venezuelan program is of sufficient importance to warrant inclusion of funds for its financing in the FY 1958 appropriations request, making it clear to the Congress that such funds were intended simply as a device for financing the Venezuelan requirement and not to fund grant aid.

As soon as you and Mr. Murphy have had a chance to study the foregoing questions, I suggest that we meet to discuss them.

Yours very sincerely,

John B. Hollister[4]

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[4] Printed from a copy which bears this typed signature.

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579. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the President of the Export-Import Bank (Waugh)[1]

Washington, October 30, 1956.

SUBJECT

Loan to Petroquimica by Export-Import Bank

Pursuant to the views which were expressed by Mr. Rubottom and myself on behalf of the Department of State during our meeting with you this morning, I wish to record in this memorandum the position that United States Government funds of the Export-Import Bank not be used to help in the financing of the purchase of pipe for the gas pipeline from the Anaco Field in Venezuela to the Petroquimica Plant. The Department has given careful consideration to all of the factors which are involved and has concluded that it would be unwise for United States public funds to be used to help finance this project which, as you know, is a 100% Venezuelan Government financed entity. We believe that this is an appropriate project for private financing and that it should be possible to raise the necessary capital to finance the pipeline through private sources.[2]

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[1] Source: Department of State, Central Files, 831.2553/10–3056. Official Use Only. Drafted by Prochnow with the assistance of Rubottom.

Herbert V. Prochnow[3]

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[2] At the meeting of the Board of Directors of the Export-Import Bank, November 8, the application for the loan was denied on the grounds that the dollar position of Venezuela was strong enough that private financing should be available. Additional documentation on the subject is *ibid.*, 103–XMB.

[3] Printed from a copy which bears this typed signature.

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580. Memorandum of a Conversation, Washington, November 5, 1956[1]

SUBJECT

Venezuelan Request for Credit to Purchase Military Equipment

PARTICIPANTS

Mr. Robert Murphy, Deputy Under Secretary
Mr. John B. Hollister, Director, ICA
Mr. Gordon Gray, Assistant Secretary of Defense, ISA
Mr. Roy R. Rubottom, Acting Assistant Secretary of State, ARA
Mr. Robert G. Barnes, U/MSA
Mr. Terry B. Sanders, ARA/OSA
Mr. Tap Bennett, G
Mr. Seymour Weiss, ICA
Mr. Chick Ellis, ICA

Mr. Murphy explained that he had suggested this meeting as a means of settling rapidly any questions that might have arisen in connection with the long-standing Venezuelan request for credit to cover purchases of certain items of military equipment. A decision on this was necessary in order to implement the U.S.-Venezuelan military talks, to which Defense attached great importance. He suggested they might review Mr. Hollister's letter to Mr. Gray of October 29, 1956 to see if all the questions were settled.

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[1] Source: Washington National Records Center, ICA Director's Files, FRC 61 A 32, Box 313, Venezuela. Secret. Drafted by Barnes.

Mr. Murphy and Mr. Gray confirmed the assumptions stated in Mr. Hollister's letter that (1) Venezuela was considered a vital strategic area and (2) the achievement of U.S. objectives in this area was sufficiently important to justify the furnishing of reimbursable military aid on a credit basis.

Turning to the specific questions raised by Mr. Hollister, it was agreed that granting this Venezuelan request might give rise to similar requests from other countries. It was felt in the Department of State, however, that we had a sufficiently valid position to be able to deal with other requests. No general rule could be laid down about these, but each would be judged on its merits. In this connection, it was noted that the U.S. had not given any great assistance to Venezuela and that Venezuela was currently spending about $27 million per year on arms purchases. The proposed program should therefore not increase pressures from other countries for off-setting U.S. assistance.

Turning to the magnitude of the program, it was noted that we were not committed to Venezuela in respect to any particular dollar figure or any particular list of equipment. What we proposed to offer was credit for the purchase of items of equipment costing about $180 million and that we would not agree to a major upward revision of this figure. It was agreed that this offer would extend over a ten-year period, subject to appropriate Congressional action, that not more than $25 million could be utilized in any one year, and that the credit would be standard three-year credit at 3%. [It was subsequently confirmed that this meant 10% down payment and five equal semi-annual installments.][2]

Defense suggested that future funding of this credit might be through a global revolving fund in the Mutual Security Act, and Mr. Hollister said he thought a working group should get together to consider the technical aspects of this.

Note:

The effect of the above meeting was to answer satisfactorily all of Mr. Hollister's questions. It has been subsequently learned that

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[2] Brackets in the source text.

ICA is now prepared to present the case to the NAC, recommending the latter's approval.[3]

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[3] On November 20, the National Advisory Council Staff Committee recommended the proposed $10 million credit in fiscal year 1957, but decided that it could not recommend the total $180 million figure because that would be a long-term commitment for which no Congressional authority existed. Availability of the funds to assist in the financing of the planned total program of $180 million for the next 10 years would be dependent on annual Congressional appropriations. The NAC formally approved the $10 million credit on November 24. Documentation on this matter is in Department of State, Central Files, 731.5-MSP/11-2056, 731.5/7-2456, and 713.00/12-1256.

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581. Memorandum of a Conversation, The White House, Washington, November 23, 1956[1]

SUBJECT

Venezuelan Foreign Minister's Courtesy Call on President Eisenhower

PARTICIPANTS

The President
The Minister of Foreign Affairs of Venezuela[2]
Ambassador Gonzalez
ARA—Mr. Rubottom

After an exchange of salutations the Foreign Minister, on behalf of the President of Venezuela and the Venezuelan people, congratulated the President on his reelection. He also conveyed their gratification over the President's complete recuperation from his operation last summer. The President thanked the Foreign Minister and said he was very happy to see him again, mentioning how much he had enjoyed the meeting of Presidents at Panama.

The Foreign Minister then referred to the serious world crisis brought on by the Suez Canal problem. The President replied that there had been a serious problem created by the unwarranted seizure of the Canal by the Egyptians last July. He declared that, while there might be some legal basis to support the Egyptian nationalization of the Suez Canal Company, it was difficult to comprehend why Egypt had not waited 12 years for the treaty to expire, at which time she would have been completely within her rights to take over the

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[1] Source: Eisenhower Library, Whitman File, International File. Secret. Drafted by Rubottom.

[2] José Loreto Arismendi.

Canal, charge whatever fees she liked, and take full advantage of her strategic position vis-à-vis the Canal. The Foreign Minister described Nasser as a very dangerous element in the world picture today, and the President indicated his agreement.

The Foreign Minister inquired as to how the President viewed the world situation. The President responded that he was generally optimistic, if for no other reason than that the force of today's weapons is so terrible as to deter any power, including the USSR, from getting so close to the edge of a world conflict as to be unable to retreat. To the Foreign Minister's query as to whether the Russians could not be clearly forewarned that they should not step across a certain line, the President declared that this posed great difficulties and that he thought the Soviet leaders did not dare to chance a world war because it would certainly mean their country's destruction. The President alluded to the Caracas Declaration against the threat of communism to the Americas, saying that it was unfortunate that other areas in the world did not have the same awareness of the communist menace.

The discussion turned to Hungary, both the President and the Foreign Minister deploring the horrible brutality of the recent Soviet intervention there. The Foreign Minister said that he had challenged Shepilov in the General Assembly on his cynical statement that Russian military intervention in Hungary had been at the invitation of the Hungarian Government which they immediately kicked out.

In commenting on his appreciation of the solidarity and common purpose of the American Republics, the President said that the Americas conceivably could isolate themselves from the rest of the world but that such a course was not feasible or desirable and that we would have to do everything possible to see to it that Western Europe and the rest of the free world was not overrun by the Communists. He stressed that we all should look toward solutions in the UN which might enable us eventually to spend less on defense budgets, now costing the U.S. about $43 billion per year.

The President drew a distinction between the aggressive imperialistic aims of international communism, as represented by the Soviets, and the communism of Yugoslavia which seemed to be directed internally rather than externally, but remarked that there was no difference in the treatment of the people who came under the communist yoke.

Ambassador Gonzalez recalled that he had just arrived in Washington at the time of the inauguration in 1952 and that he was looking forward to attending the President's second inauguration next January. The President thanked the Foreign Minister for his visit and asked him to convey his regards and best wishes to President Perez Jimenez on his return to Caracas. The President also commented that he hoped it might be possible some time during his second term to have another meeting with the other Presidents of the Americas. Mr. Rubottom commented that the President would most certainly be taken up on that idea if he really meant it, and the President replied that he indeed did mean it.

The photographers were invited into the President's office at the end of the call to take pictures of the group.

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582. Memorandum of a Conversation, Department of State, Washington, December 12, 1956[1]

SUBJECT

Venezuelan Ambassador's Call to Receive Note on Military Equipment

PARTICIPANTS

Dr. César González, Ambassador of Venezuela
R.R. Rubottom, Jr., Acting Assistant Secretary for Inter-American Affairs
Carl E. Bartch, OSA

At Mr. Rubottom's request, Ambassador González called this afternoon and was handed a note dated December 8, 1956,[2] approving the Results of the Planning Talks between the United States and Venezuela, and stating that we were prepared to provide credit facilities for the purchase of military equipment for Venezuelan defense units described in the four Annexes to the Results. Mr. Rubottom carefully reviewed the text of the note and informed the Ambassador that the planned $180 million program extending over the next 10 years was dependent not only upon the year-to-year Congressional appropriation of funds to finance it, but also upon annual NAC approval. He explained that the NAC had the responsibility, at the highest level, of reviewing all financial programs of the United States Government.

Mr. Rubottom told the Ambassador that the program had been approved only after efforts extending over many months. He said frankly that there were some who felt that the granting of a credit of this magnitude to Venezuela to purchase military equipment would tend to create an armaments race in Latin America. He said that we did not share this view, and, aware of Venezuela's strong economic position, are confident that our Government's approval of the program would only increase the solidarity existing between our two Governments.

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[1] Source: Department of State, Central Files, 731.5–MSP/12–1256. Secret. Drafted by Bartch.

[2] Not printed. (*Ibid.*, 731.5–MSP/12–856)

The Ambassador expressed his appreciation for the note, adding that it was the best Christmas present he could receive. He did not raise any objections to the note or to the credit terms we offered to Venezuela.[3]

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[3] On February 5, 1957, Ambassador Gonzalez handed Bernbaum note No. 179, dated February 5, 1957, approving the results of the Military Planning Talks concluded at Caracas on March 13, 1956, between military representatives of the United States and Venezuela. The note also accepted the credit facilities offered to Venezuela in the Department's note of December 8, 1956, for the purchase of U.S. military equipment to implement the defense objectives assigned to Venezuela. (*Ibid.*, 731.5/2–557)

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583. Memorandum of a Conversation Between the Deputy Director of the Office of Middle American Affairs (Stewart) and Romulo Betancourt, Department of State, Washington, December 21, 1956[1]

SUBJECT

Romulo Betancourt Discloses Future Plans of Venezuelan Opposition

Romulo Betancourt, exiled Venezuelan political leader whom I have known for many years, visited me in my office on December 21. Without any prompting Betancourt denied that he had been involved in a recent plot to kill President Perez Jimenez of Venezuela. He said all reports emanating from Venezuelan Government sources to this effect were untrue and had been "prefabricated".

Betancourt stated that Accion Democratica had no plans afoot to overthrow the Perez Jimenez Government nor to assassinate Perez Jimenez or other government officials. The AD people are fully aware, he said, that any movement from without Venezuela to overthrow the regime would have no success. He recognized that an overthrow would only be successful if elements in the Venezuelan Armed Forces took energetic action. He said that there was discontent in the Venezuelan Army, especially among the younger officers but that in view of the promise of Perez Jimenez to hold elections next year these officers were biding their time, but were strongly in favor of having honest balloting. He said the younger officers were receiving good pay but that they were not being cut in on graft, which was going to the older, higher ranking officers, especially those stationed in and around Caracas. This feature necessarily did not make the older officers holding posts outside the Caracas area completely happy but he was not aware that this was going to cause any overthrow movement to develop in the Armed Forces. He said that the tactics of AD at this time were to make plans to unite with other opposition parties like URD and COPEI to present a single presidential candidate in the promised elections. A likely candidate, he said, would be Eugenio Mendoza, wealthy and prominent Caracas businessman. It is AD's idea that the candidate should be a businessman or industrialist generally respected in the country and not affiliated too much with any political party. But Betancourt stressed that the unified opposition would make no pacts with the Communists.

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[1] Source: Department of State, Central Files, 731.00/12–2156. Confidential. Drafted by Stewart.

Betancourt declared that the United States could be helpful in laying the groundwork for the elections by urging the Venezuelan Government to end its "reign of terror". In this manner the preelectoral political scene in Venezuela would be somewhat tranquilized. He also thought that the United States could use its influence by gently urging Perez Jimenez to stage honest elections.

Betancourt said that he was living quietly at a beach house near San Juan and was completely satisfied with the security arrangements provided for him by the Puerto Rican Government. He stated that he was being scrupulous in remaining completely out of Puerto Rican politics so as not to embarrass Governor Munoz Marin in any way.

Following his Christmas holiday vacation in Washington at the home of a friend, he plans to spend a few days in New York and will take a plane from there on January 4 for his return to San Juan. It is interesting that Betancourt plans to be away from Puerto Rico during the inauguration ceremonies of Governor Munoz Marin. While he did not say so I gathered that the trip to the United States by Betancourt was timed so that he could be absent from Puerto Rico during these festivities.

584. Editorial Note

An agreement between the United States and Venezuela extending the Air Force Mission agreement of January 16, 1953, was effected by an exchange of notes at Washington, February 11 and 15, 1957, and entered into force on the latter date. For text of the notes, see 8 UST 209. Documentation relating to this matter is in Department of State, Central File 731.58.

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585. Telegram From the Secretary of State to the Embassy in Venezuela[1]

Washington, April 24, 1957—7:56 p.m.

532. Dept confidentially informed Ambassador González this afternoon that ODM Director Gordon Gray today certified to President under Section 7 Trade Agreements Act[2] that present level crude oil imports threatens impair the national security. White House announcement of ODM action expected tomorrow morning. Circular follows with additional information.[3]

Dulles

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[1] Source: Department of State, Central Files, 831.2553/4–2457. Confidential; Priority. Drafted by Bartch and initialed by Bernbaum.

[2] Reference is to P.L. 86, the Trade Agreements Extension Act of 1955; see 69 Stat. 169. Section 7 instructed the Director of the Office of Defense Mobilization to advise the President whenever he had reason to believe that any article was being imported into the United States in such quantities as to threaten to impair national security. If, after investigation, the President found that a threat existed, he was authorized to take necessary action to adjust the imports of such articles.

[3] Not further identified.

586. Telegram From the Ambassador in Venezuela (McIntosh) to the Department of State[1]

Caracas, May 17, 1957—6 p.m.

623. Immediately following normal courtesy visit to President yesterday afternoon by Admiral Radford,[2] myself, and Service Attachés, Venezuelans staged surprise formal conference at Miraflores attended by all above plus Mazzei,[3] Fernandez[4] and four Venezuelan service chiefs. During 1 hour 25 minute meeting President Mazzei and Fernandez spoke, Admiral Radford and I were invited comment.

President made following points:

1. Reaffirmed Venezuelan-US friendship, Venezuelan importance to US and free world as sources strategic materials and as market for US goods.
2. Reaffirmed Venezuela's anti-Communist posture and support for US efforts against international communism.
3. Stated Venezuela's desire improve her armed forces in order be able contribute effective help in case world conflict.
4. Asserted Venezuela has no aggressive designs on any her neighbors but considers she has interest in adjoining British and Dutch possessions which should be given consideration.
5. Venezuela prefers obtain her military equipment requirements in US and will continue seek her equipment there. However Venezuela has had numerous difficulties delays in obtaining US equipment. He made clear that if military equipment desired by Venezuela not made available readily by US it will be purchased elsewhere. Mazzei and Fernandez reiterated President's remarks re difficulties obtaining US equipment. Fernandez stressed difficulties in spare parts procurement. Mazzei made unelaborated statement indicating belief that 1956 staff talks agreement too complicated, should be simplified.

Admiral Radford briefly described world situation, difficulties involved in coordinating and meeting US global military commitments including equipment needs. Assured President he was aware Venezuelan desires and that in view improved world situation he could promise improved attention to Venezuelan equipment requirements.

He merely expressed satisfaction over excellent state US-Venezuelan relations.

McIntosh

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[1] Source: Department of State, Central Files, 611.31/5–1757. Secret.

[2] Admiral Radford was visiting several Latin American countries for discussions relating to military assistance programs. Regarding this trip, see vol. VI, Documents 47–49.

[3] Brigadier General Oscar Mazzei Carta, Venezuelan Minister of Defense.

[4] Colonel Rómulo Fernandez, Chief of Staff of the Venezuelan Armed Forces.

587. Telegram From the Ambassador in Venezuela (McIntosh) to the Department of State[1]

Caracas, June 6, 1957—6 p.m.

658. For Rubottom. I am seriously concerned about repercussions in Venezuela which could be expected follow the imposition of any severe or enforced oil import restrictions by US. These might include steps by Venezuelan Government to curtail imports from US; intervention by Venezuelan Government into petroleum and iron ore business possibly to extent of controlling production and exports; entrance of government into further business activities to detriment present and future American business interests and finally general harassment by Venezuelan Government of already established American businesses. Furthermore, if imposition of US restrictions should result in serious decline Venezuelan Government revenues stability of present Venezuelan Government might be affected. Without question one certain result would be strained relations in all phases between Venezuela and US. Imposition any import restrictions will have unfortunate effects here but if Venezuela treated exactly same as Canada irritation would be lessened. However, if Canada should continue be exempted from restrictions or favored in any way while restrictions applied to Venezuela, great resentment would be caused here.

If and when decision should be made impose restrictions affecting Venezuela, I strongly urge that Venezuelan Government through this Embassy, as well as Venezuelan Embassy in Washington, be given as much advance notice as possible thereby softening blow and easing resentment. Desirable Venezuelan Government be kept as fully informed as possible regarding current developments.

I understand American Chamber Commerce of Venezuela giving consideration dispatch to US of delegation prominent Venezuelan American businessmen to present position from Venezuelan point view to press and business circles in US. Similar action was effective in 1950 when import restrictions were being considered by Congress. In opinion Department would visit at this time by such a delegation be productive good results? Also would visit to Washington by myself at this time be of any value?

Conclusion imposition restrictions reducing US imports Venezuelan oil significantly below current level would unquestionably seriously disrupt our present cordial relations with Venezuela and prejudice our long term political and economic objectives.

McIntosh

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[1] Source: Department of State, Central Files, 411.316/6–657. Confidential; Priority.

588. Telegram From the Acting Secretary of State to the Embassy in Venezuela[1]

Washington, June 7, 1957—7:56 p.m.

606. Your evaluation possible repercussions in Venezuela of restrictions on crude oil imports your 658[2] appreciated. If possible you and Venezuelan Embassy will be given advance notice any action this matter and we will continue keep you fully informed developments.

Difficult at present determine most opportune time proposed Chamber Commerce delegation visit view following (1) Presidential Committee to investigate Section 7 action not yet appointed;[3] (2) ODM Director Gordon Gray has not yet completed consultation individual US oil importing companies in effort explore feasibility achieving reduction imports by voluntary action as directed by President. On balance however believe visit now by Chamber delegation or other US group might be effective in presenting views of US interests in Venezuela to press business and legislative circles during important formative stage.

Do not believe it necessary you visit US present time.

Herter

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[1] Source: Department of State, Central Files, 411.316/6–757. Confidential. Drafted by Bartch and initialed by Rubottom.

[2] *Supra.*

[3] On June 26, the President announced the formation of the Special Committee to Investigate Crude Oil Imports, composed of the Secretaries of State, Defense, the Treasury, Commerce, Interior, and Labor.

589. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, July 6, 1957.

SUBJECT

Probable Impact of Restricting Imports of Venezuela's Crude Oil

With reference to the meeting on July 8 of the Special Committee to Investigate Crude Oil Imports, there are certain factors involving Latin America in general and Venezuela in particular which I would urge that you consider.

Our Ambassador to Venezuela is seriously concerned, as I am, with the repercussions in Venezuela which might result from the imposition of restrictions on U.S. imports of Venezuela's crude oil. The Venezuelan Government might be prompted in retaliation to limit imports of merchandise from the U.S.; or inclined to intervene in the petroleum and iron ore industries to the extent of placing controls of its own on production or exports; and/or might take measures inimical to other established U.S. business concerns. There is little doubt, in any case, that a decision to restrict would impose a strain upon relations between Venezuela and the U.S., especially because of the percentage of Venezuelan fiscal revenues derived from the petroleum industry.

U.S. private, direct investment in Venezuela, currently estimated at more than *$3 billion,* is greater than in any other foreign country except Canada. A large proportion of it is in petroleum; since last fall U.S. companies, including a number of smaller producers, have paid to the Venezuelan Government almost three-quarters of a billion dollars in initial fees for new oil concessions. In addition to investment in petroleum, U.S. private companies are developing Venezuela's vast deposits of iron ore, and last year Venezuela was the second leading foreign supplier of iron ore to the U.S. Any limitation of U.S. imports of Venezuela's crude oil might, as already mentioned, lead to retaliation against U.S. interests and jeopardize the satisfactory conditions which U.S. investors have lately been enjoying in that country. Such retaliation was threatened in May 1955 by President Pérez Jiménez when it appeared that restrictions were imminent.

Venezuela accepts foreign participation in its economic development, imposing no restrictions on foreign exchange or the transfer of capital abroad. The success it has had with its free enterprise economic policies constitutes a model for the rest of Latin America and is one of our most effective arguments against the extension of ultranationalism, state controls and protectionist philosophy. In cooperation with U.S. petroleum companies, the Venezuelan Government in 1943 initiated the policy of the fifty-fifty split of profits between the oil companies and the government. This concept has now become accepted in most of the oil producing countries. Restrictions imposed on U.S. imports of Venezuela's crude oil might result in increased government intervention in business and industry and a readjustment of the fifty-fifty concept, to the detriment of private enterprise not only in Venezuela but conceivably elsewhere in Latin America.

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[1] Source: Department of State, Central Files, 411.316/7–657. Confidential. Drafted by Bartch, Snow, and Rosenson.

Venezuela is the largest single market in Latin America for U.S. exports of goods and services. In 1956, Venezuela's merchandise imports from the U.S. amounted to $648 million and services were estimated at an additional $500 million, for a total of almost $1.2 billion. As a result of Venezuela's rapid economic development, its demand for U.S. imports has increased by 3,000 per cent in the past two decades, resulting in a substantial increase in business for U.S. manufacturers, farmers, shippers and exporters in all regions of the U.S. The imposition of restrictions on Venezuela's exports of crude oil to the U.S. would not only inhibit Venezuela's ability to finance dollar imports but might also affect its future willingness to rely so heavily upon one source of goods.

There is every indication that if Canada should continue to be exempted from restrictions that may be applied to Venezuela, great resentment would arise, making our relations with that country much more difficult. Since Canada and Venezuela have in the past both been exempted from voluntary limitations, I believe the two countries should receive equal treatment in the future. Most of the reasons advanced to justify special treatment for Canada apply also to Venezuela, which is a more important supplier of crude oil to the U.S.

One further point concerns me more than any of the foregoing. We will be going to Buenos Aires in August to attend the Economic Conference of the American States. Over the years we have stood for reduction of trade barriers, membership in GATT and the proposed ITO,[2] encouragement of private investment, etc. Such measures as the proposed new taxes on imported lead and zinc and the sale of our surplus cotton, have already irked the Latin Americans and made our professions of economic policy appear less than consistent with our practice. Restrictions on oil imports would lend further substance to Venezuelan and other Latin American criticism on that score, thereby weakening our position at Buenos Aires by that much more.

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[2] Reference is to the International Trade Organization, originally proposed in 1947 but not established. Its purpose was to reduce trade barriers.

If some limitation on imports of Venezuela's crude oil proves to be unavoidable, I believe efforts should be made to consult in advance with the Venezuelan Government in an effort to reach an understanding. However, I do not believe we should place ourselves in the position of suggesting to the Venezuelan Government that it impose controls on exports.

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590. Memorandum of a Conversation, Department of State, Washington, July 10, 1957[1]

SUBJECT

Possible Limitation of Crude Oil Imports from Venezuela

PARTICIPANTS

Dr. Carlos Perez de la Cova, Minister Counselor for Petroleum Affairs, Venezuelan Embassy
OSA—Mr. Bernbaum
ARA—Mr. Rubottom
OSA—Mr. Bartch

Mr. Rubottom invited Dr. Perez de la Cova to call at the Department this afternoon to give him an indication of the progress attained to date by the Special Committee to Investigate Crude Oil Imports. Mr. Rubottom began the conversation with the assurance that the Department is aware of Venezuela's great interest in this matter, which will be given full consideration. He said that although the Committee had not reached any conclusions, it has under consideration a proposal to effect limitations on crude oil imports through the individual voluntary action of importing companies. He added that the proposal does not envisage any differentiation in treatment among imports from various areas. Mr. Rubottom said he did not know when the Committee would submit its conclusions and recommendations to the President, but that from what he had heard, he understood that this would be in the very near future. In reply to a question, Mr. Rubottom said he honestly did not know what conclusions Gordon Gray had reached as a result of his individual talks with various oil importing companies regarding the feasibility of affecting limitations through voluntary cooperation.

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[1] Source: Department of State, ARA Files: Lot 59 D 12, Chronological–Date File, 1957. Confidential. Drafted by Bartch.

Mr. Rubottom remarked that there were two important points he thought Venezuela should keep in mind: (1) the fact that Venezuela's crude prices were based on U.S. Gulf port prices and would decline if, as a result of a shortage of storage space or of other factors, Gulf prices fell; and (2) that if Venezuela could be given assurance of an opportunity to participate in supplying the growing U.S. domestic consumption of crude oil this would be of material benefit to its economy. Dr. Perez de la Cova agreed to the validity of these two points.

Dr. Perez de la Cova noted that neither the ODM nor the Department of Justice, which had both been represented in the Advisory Committee on Energy, Supplies and Resources Policy, was represented in the Special Committee. He understood why the ODM was not represented, since it had already taken a position on the imports problem, but he was unable to understand why Justice was not included in the new committee. Although he believed that voluntary cooperation was preferable over formal controls to most of the petroleum industry, he pointed out that some of the newer companies had not acted in cooperating voluntarily in the past. He said he had heard that there may be some anti-trust obstacles to implementing limitations through voluntary cooperation of importing companies. Mr. Rubottom replied that that was also under study.

Dr. Perez de la Cova declared that his Government desired to be realistic in facing possible limitations of crude oil imported into the U.S. and that he was certain that the producing companies in Venezuela felt the same way. He said that when the policy of attempting to limit crude oil imports through voluntary restrictions was placed into effect in the U.S. two years ago, there were some in the Venezuelan Government who thought that this might be considered a violation of the Supplemental Trade Agreement between the two countries. However, in view of the fact that this limitation was aimed primarily at individual importing companies rather than at the Venezuelan Government, no action was taken. He said he hoped that it might be possible for his Government to adopt a similar realistic attitude in the event that the Special Committee recommended voluntary limitations. Mr. Rubottom said that he hoped so, too. He added that he had been receiving a great deal of mail from people in Texas calling for some action to limit oil imports in order to stimulate domestic exploration and development activities.

Dr. Perez de la Cova remarked that he had heard a number of rumors concerning a new formula for relating the level of crude oil imports to U.S. domestic production or consumption, but Mr. Rubottom said he could substantiate none of them since nothing had yet been decided upon. Dr. Perez de la Cova expressed his appreciation to Mr. Rubottom for inviting him to call, and said he would be pleased to come in at any time to confer with him further.

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591. Memorandum of a Conversation, Department of State, July 23, 1957[1]

SUBJECT

Action by U.S. Government Regarding Oil Imports

PARTICIPANTS

The Secretary
Ambassador César González of Venezuela
ARA—Mr. Rubottom

The Secretary told Ambassador González that he sought this opportunity to discuss the action pending by the United States Government with respect to restricting oil imports.[2] Since the Suez Canal crisis they had increased sharply, to the point of constituting a menace to oil development in the United States and hence our own national security. The Secretary referred to the action of President Eisenhower in establishing a Cabinet Committee chaired by Secretary of Commerce Weeks and on which he sat along with the Secretaries of Interior, Treasury and Labor and the Attorney General. He said that he had participated actively in the Committee meetings and that, while the Committee's work had not yet been completed, he thought it was now timely to consult with the Ambassador in order that he might report directly to his country. We recognize the importance of petroleum in our relations with Venezuela.

The Secretary said that it appeared that the Cabinet Committee's recommendations to the President would be along lines so as to permit the following conclusions to be drawn:

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[1] Source: Department of State, Central Files, 411.006/7–2357. Confidential. Drafted by Rubottom.

[2] In a memorandum of July 23 to Dulles, Rubottom stated that González was calling at the Secretary's request and wrote in part: "This is in accordance with our practice of consulting informally with the countries most concerned with our oil import policy. These exchanges of views not only serve to keep those countries informed of current developments but also provide them with a sense of participation in the formulation and implementation of the policies we adopt." (*Ibid.*)

(1) Restrictions to be applied would be on a voluntary basis, at least in the beginning, and would be applied to companies rather than to countries.

(2) Companies would be expected to fall back approximately to the level of their 1956 imports into the United States and would have to restrict their imports for the second half of 1957 which were "extravagant."

(3) The formula to be applied for the percentage of imports would be somewhat in excess of that which had been applied by the Cabinet Committee in February, 1955 (i.e., the 1954 ratio).

(4) There would be no discrimination with respect to countries or geographical areas of the world, although the fact that no restrictions were contemplated for District 5 would tend to give somewhat more favorable treatment to the countries shipping oil to that area.

(5) U.S. import restrictions now would be advantageous to exporting countries in helping to maintain a satisfactory price for their oil since the prices paid them are based on U.S. Gulfport prices.

(6) The plan contemplated would permit foreign oil-producing countries to share in the growth of the U.S. market.

Ambassador González expressed his appreciation and that of his government for the opportunity to discuss this subject with the Secretary. He acknowledged that oil was absolutely vital to his country. He was certain that Venezuela's interests were not being overlooked by the Secretary and the Department of State. They recognized the heavy pressure against imports led by the independent oil producers of the United States. The Secretary interjected to remind the Ambassador of what he had pointed out to the Venezuelan Government at the time of his visit to Caracas in 1954, namely that U.S. exporters to Venezuela, who have at least as much at stake in maintaining a market here for Venezuelan oil as does Venezuela herself, are politically unorganized, thus making it all the more difficult for the Department to portray the importance of our two-way trade with Venezuela.

The Ambassador said that he would communicate immediately with his Government. The Secretary cautioned the Ambassador to make clear that the program is wholly tentative and subject to final approval by the Cabinet Committee and then the President. The Secretary, in answer to the Ambassador's query, estimated that it would be at least three or four more days before any announcement would be made, perhaps more.

592. Editorial Note

The Special Committee to Investigate Crude Oil Imports issued its report on July 29. Of importance to Venezuela was the Committee's recommendation calling for crude oil importers to restrict voluntarily their imports into the United States to 90 percent of the average imports for the years 1954, 1955, and 1956. The Venezuelan Government initially displayed a lack of concern about the restrictions, emphasizing that the restrictions would cause little damage to the Venezuelan economy. Conversations held throughout August, however, between Venezuelan officials and various Department of State officials revealed a different attitude suggesting that the Venezuelans considered the restrictions in violation of the principles of reciprocal trade. Documentation reporting Venezuelan reactions is in Department of State, Central Files 411.316 and 411.006; *ibid.*, ARA Files: Lot 59 D 12, Economic–Oil 1957; and *ibid.:* Lot 59 D 376, Venezuela 1957.

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593. Memorandum From the Director of the Office of International Resources (Armstrong) to the Deputy Director of the Office of South American Affairs (Sanders)[1]

Washington, November 19, 1957.

SUBJECT

Venezuelan Participation in Arab League Oil Congress

Our reaction has been requested in regard to the significance of the invitation extended to Venezuela by the Arab League to participate in an Oil Congress to be held in Cairo in February and the probable acceptance of that invitation by Venezuela.

We have little to go on in appraising this situation; it is interesting that the first and the most constructive report of the meeting should have originated with the Canadian Ambassador in Caracas. The plans for the Congress have, however, been in hand for a number of months. It would appear that the Congress is intended to have the character of an International Exposition as well as that of a study conference. At least three oil companies operating in the Middle East—Aramco, Gulf and British Petroleum—have been invited to attend and to present exhibits; of these, we know that Aramco has accepted.

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[1] Source: Department of State, Central Files, 886.2553/11–1957. Confidential. Drafted by Minter R. Rutherford of the Fuels Division, Office of International Resources.

The invitation to Venezuela should not have come to us as an entire surprise. Venezuela and the Middle Eastern countries are not utter strangers to one another. We recall that a Venezuelan "team" visited several of the Middle East countries in about 1950. The commonly accepted explanation for this trip was that the Venezuelans were "selling" the 50-50 concept to the Middle East and were thereby reducing the competitive advantage which low-cost Middle East oil would have vis-à-vis Venezuelan oil. Sheik Aldullah Tariki, the Saudi Arabian Director of Petroleum Affairs, participated in the National Petroleum Convention which Venezuela sponsored in Caracas in 1951, and he again visited Venezuela in 1956.

Our first instinct in regard to the Arab Congress, and Venezuela's participation in it, would be to avoid any outward indication of alarm. It could be surmised that the objectives of the Arab participants—whatever they may be—would be served by more, rather than less, attention.

Secondly, we would feel that we should rest assured that the presence of Dr. Perez de la Cova is a factor on our side. He is a very competent petroleum economist and government official. It is inconceivable to us that he would permit Venezuela to be drawn into any schemes which would be broadly deleterious to the best interests of the oil industry—an industry which is well known to and appreciated by the Venezuelans in all of its ramifications, but about which many Middle Eastern officials have only the most vague notions.

The Venezuelans are in an incomparably better position to take over the petroleum industry in their country and to run it successfully, than are the Middle Eastern governments. Yet they have not done so; to the contrary they continue to exercise an admirable restraint and moderation in their administration of the industry. Venezuelans take pride in claiming authorship of the 50–50 concept; there is no evidence that they are themselves out to break that formula and it would not be reasonable for them to wish to see it broken or discarded by the Middle Eastern countries on a unilateral basis.

It would seem likely that we could at this point give credence to the Embassy's statement that the Venezuelans are attending the

Congress *reluctantly,* and in the capacity of *observers.*[2] Furthermore, it would in any event be unwise for the United States to intervene in any way. Venezuela and the Middle East countries are all sovereign states, and would sharply resent any advice from us.

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[2] Reference is to despatch 255 from Caracas, October 21, which reported that the Embassy had learned that the Venezuelan Government would rather not attend, but had received a formal invitation. (*Ibid.,* 886.2553/10–2157)

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594. Despatch From the Ambassador in Venezuela (McIntosh) to the Department of State[1]

No. 380 *Caracas, December 6, 1957.*

Summary: The election of 1952 served to demonstrate to the Pérez Jiménez Government that the maintenance of stability and the accomplishment of a considerable amount of progress did not serve to overcome public hostility to its authoritarian shortcomings.

Five additional years of vast material achievement has failed to alter the picture. The Government—after considerable delay, suggesting indecision—finally disclosed a late-hour plan which precluded a contested election. This took the form of a plebiscite under which a liberally defined electorate would be given an opportunity to approve the Regime and reelect Pérez Jiménez on December 15, 1957.

Following the announcement of the proposed plebiscite, the rubber-stamp Congress quickly passed it without amendment and the Regime—by pressure on the business community, professional organizations, government controlled labor and on other "fuerzas vivas"—carried off a successful lightning campaign to drum up "spontaneous" messages of support for the Regime and its Election plan.

Within two weeks after the passage of the Election Law, election machinery was completely organized down to the lowest level and a get-out-the-vote campaign initiated.

Business and professional sectors and government officials for the most part reacted favorably to the idea of a plebiscite. However, the suppressed political opposition clandestinely attacked the Government plan on both constitutional and moral grounds; and many native Venezuelans became irritated by the Election Law provision that aliens with two year residence may vote. Although voting is not compulsory, the government had made it clear that it desires a large turn out and this became a matter of concern to U.S. citizens. Since under our Immigration and Nationality Act citizens will lose their nationality by voting in the plebiscite, the Embassy explained the situation to the Venezuelan Government and with the latter's agreement published a notice quoting the pertinent provision of Public Law 414.

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[1] Source: Department of State, Central Files, 731.00/12–657. Confidential.

The approaching election date witnessed an increase in wild rumors and unfounded speculation that serious disturbances and possibly considerable violence would develop. However the only outbreak of anti-government agitation thus far has been limited to university and secondary school students who held protest demonstrations. These were quickly and effectively quashed by security agents.

With slightly more than a week remaining before election, the Pérez Jiménez regime appears to be well in control of the situation and should be able to weather further minor disturbances, provided it does so prudently and avoids creating an emotional crisis. With no effective opposition in sight and with the armed forces apparently supporting the Regime, the mechanics of the plebiscite make it appear a foregone conclusion that the Regime will be "approved" at the polls on December 15 by an overwhelming majority.

[Here follows an account of pre-election situation in Venezuela.]

Pre-Election Estimate of the Situation.

With slightly more than a week remaining before the election, the Pérez Jiménez regime appears to be well in control of the situation and should be able to weather the minor disturbances inspired by opposition elements, which might crop up before the election date provided it does so prudently and avoids creating an emotional situation of crisis proportions around which the opposition could crystalize public opinion against the Government to the extent of forcing the issue. The Government seems aware of this pitfall and appears to have tried to sidestep it, judging by the pains it took to avoid bloodshed during the quashing of the student demonstration.

Further student restiveness can be expected both before and after the election. However, thus far, the student disturbances have not spread to other segments of the population, although the possibility that labor groups might be encouraged to take some sort of action should not be discounted despite the fact that independent organized labor activities have been heavily harassed and curtailed by the Government during the last few years. Labor's grievances against the Government are many and fundamental and in recent weeks there have been rumors of impending strikes; but it is doubtful that independent labor has the wherewithal to initiate serious trouble for the Regime.

As was indicated above, political activity is now not only a factual but a legal monopoly of the Regime and the political opposition, whether in exile or in a state of dormant "toleration", must rely on clandestine methods of operation. In the absence of an emotional crisis which the opposition political groups could use to heat up public passions to their own advantage, their capabilities, whether singly or united, appear to be negligible as long as the military continues to support Pérez Jiménez.

While lacking unanimity of hierarchical opinion, opposition elements in the Church do not seem disposed to become involved in the election situation as long as the Government does not take action against the Church or clergy. The Government seems to be aware of the dangers in picking a fight with the Church and it would appear unlikely that the Regime's tacticians would run the risk of doing so at this time.

Rumors of schisms within the military have cropped up from time to time, particularly during the last few months. For the most part these rumors appear to be the outgrowth of public speculation rather than based on accurate knowledge. Clandestine opposition pamphlets circulating locally are designed to sow dissention among the military and contain appeals to the armed forces to oust the "triumvirate" of Pérez Jiménez, Vallenilla Lanz and Estrada on the basis that the latter is now using the military to advance its own ends rather than continuing the "government of the Armed Forces". While undoubtedly there are dissident or personally ambitious individuals within the armed forces, by and large the Venezuelan military officers enjoy a unique position of special privilege and opportunity for graft and it would appear unlikely that they would want to risk a plot to oust Pérez Jiménez in the absence of disturbed conditions. Moreover, so far as is known, there does not appear to be any military man on the scene who at the same time is personally ambitious and enjoys sufficient popularity and influence with the officer corps to lead dissident officers in a coup against the Regime. Were such an individual known to the Embassy, he would probably also be known to the Regime and safely taken out of action as happened to Lt. Col. Oscar Tamayo Suarez.

With some exceptions, business is good and the economic situation continues favorable. It is highly unlikely that the business community as a whole would be willing to become involved in anything that would disturb economic conditions for the sake of altering the political situation. The feeling of the economic sector toward the Government is generally favorable, despite occasional complaints about grafting officials and some resentment about the pressure in connection with the Government's campaign to drum up "spontaneous" messages of support.

Venezuela has been subjected to rule by dictators throughout most of its history. In the absence of democratic traditions, the majority of the Venezuelans have developed what appears to be an apathetic or acquiescent attitude toward their authoritarian governments. In the present political situation, the typical mood of the man in the street appears to be one of passive, though cynical, acceptance of the Regime's decision and plans to remain in power. Under the circumstances described in the preceeding paragraphs and given the mechanics of the plebiscite itself, it appears a foregone conclusion that the Regime will be able to announce that it has been "approved" at the polls on December 15 by an overwhelming majority.

For the Ambassador:
Sam Moskowitz
Second Secretary of Embassy

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595. Telegram From the Ambassador in Venezuela (McIntosh) to the Department of State[1]

Caracas, December 16, 1957—10 a.m.

397. Minister Interior[2] announced American newsmen 6:45 p.m. Sunday plebiscite overwhelming victory regime with 2,200,000 in favor and 500,000 "not in favor" of which more than half "voided" votes or abstentions. Official count to be announced Electoral Council later in week. City calm eve and during election day. Result no surprise but announcement figures to American newsmen prior count ballots in sealed box unusual candor even this regime. Total claimed vote of 2,700,000 of announced potential vote of 3,278,000 seems high view what to Embassy observers seemed only medium turnout in spite of unrestrained "get out the vote" campaign. Though police, army and SN on visible alert no suggestion trouble or demonstration any kind. Attitude of public best described as apathetic. Announced 82 percent favorable vote forecast no doubt

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[1] Source: Department of State, Central Files, 731.00/12–1657. Confidential.

[2] Laureano Vallenilla Lanz.

safe for regime, even though local morning papers show approximately 75 percent favor government on count first three city precincts. Local papers not carrying total vote story as given American press.

McIntosh

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596. Instruction From the Secretary of State to the Embassy in Venezuela[1]

A–133 *Washington, December 26, 1957.*

SUBJECT

Transmitting Copies of Security Survey of Venezuela's Petroleum and Iron Ore Mining Industries

For the Embassy's use only, there are enclosed two complete copies of the report[2] of the security survey of Venezuela's strategic petroleum and iron ore mining installations, conducted earlier this year by William Brewster and Edward Patrick Gallagher of International Police Services, Inc., a private corporation located at Washington, D.C. The survey was undertaken by the company under arrangements concluded with the Department, which was assigned responsibility for the project under paragraph 53 of "Analysis of Internal Security Situation in Venezuela and Recommended Action", prepared under NSC Action No. 1290–d and approved by the Operations Coordinating Board on June 13, 1956. The primary purpose of the survey was to review the recommendations of, and compliance with, a similar project undertaken in Venezuela in 1948, and to assess, on a current basis, the vulnerability of the petroleum and iron ore mining industries to sabotage.

The survey conducted in 1948 did not include Venezuela's iron ore mining facilities, but did include the oil refining installations in the neighboring islands of Aruba and Curacao, in addition to the petroleum industry in Venezuela. NSC Action 163/1, approved by the President on October 24, 1953, entitled "Security of Strategically Important Industrial Operations in Foreign Countries",[3] assigned to the Department certain responsibilities in connection with security surveys not only of Venezuela's oil industry, but also of the refineries located in Aruba and Curacao, which are dependent for their operation on the availability of crude oil supplied from Venezuela. It was envisaged that the survey undertaken in Venezuela earlier this year would be extended to include the refineries in Aruba and Curacao, but that did not prove possible in view of the refusal of the Netherlands Government to permit such a survey.

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[1] Source: Department of State, Central Files, 831.2553/12–2657. Secret. Drafted by Bartch and approved by Sanders.

[2] Not printed.

[3] Not printed. (Department of State, S/S–NSC Files: Lot 63 D 351)

In addition to providing a comprehensive review of the installations and facilities of individual petroleum and iron ore mining companies in Venezuela, the report contains sections on administration, the Guardia Nacional, Seguridad Nacional, conclusions and recommendations, and a bibliography.

In summary, the main conclusions reached by the survey team are:

1. The industry as a whole is vulnerable to destruction or damage from acts of sabotage committed either by individual saboteurs or by armed bands.
2. General compliance with the recommendations of the 1948 survey is not evident; although several companies have initiated extensive security programs others have not done so.
3. Uniform participation by the companies in a security program requires a continuing external impetus to insure constant maintenance of security measures.
4. Destructive acts by organized labor are not likely.
5. Fire protection and safety programs are generally adequate, the oil industry having made tremendous improvements in these respects since the previous survey.
6. Communications facilities, embracing both intra and intercompany networks, are generally adequate.
7. Attack against company water supplies is not likely.
8. The security of the oil industry cannot be considered independent of the security existing in related service and supply companies.

The section of the report entitled "Security Program Guide" contains recommendations for the establishment of an adequate security system in the oil and iron ore mining industries in Venezuela. The initial task, the report states, is for company management to survey and evaluate its installations to determine which are the most important to continued operations and which are most susceptible to attack or sabotage. It must be recognized that it is not economically feasible or theoretically necessary that all kinds of installations achieve the same degree of protection. The protection to be provided to each facility should be based upon an analysis of two factors: (1) the degree to which the facility is critical to the continued operation of the company's installations as a whole, and (2) its vulnerability to attack. The report outlines additional broad criteria for establishing a security system and then proceeds to make more specific recommendations for implementation by individual companies:

1. Management should designate a Security Director and delegate to him sufficient high-level support to enable him to administer the company's security program in coordination with the Venezuelan Government and the security directors of other companies, so that an integrated, industry-wide program can be established.
2. Certain restricted areas among company installations should be designated and safeguarded.
3. Access to certain facilities should be restricted, and a badge and identification control system should be established.
4. An adequate screening program should be established for employees.
5. Adequate guard forces should be organized under the direction of the Security Director, with care taken in their selection, training and indoctrination.
6. Perimeter barriers around key installations should be established and provision made for enforcing them.
7. Perimeter barriers and critical facilities should be adequately illuminated.
8. Adequate security communications networks should be established.
9. Protective alarm systems should be employed wherever necessary.
10. An emergency plan should be prepared to provide for protection in the event of fire, Acts of God, strikes, riots and sabotage.
11. Special control procedures should be established to safeguard movement of vehicles, entry of packages, and of such key facilities as transformers, communications centers and equipment, main control valves, regulator stations, water tanks and pumps.

The Embassy is requested to review the enclosed report in detail and to submit its comments in regard to the efficacy of the survey, the validity of survey team's conclusions, and the feasibility of its recommendations. The Department is transmitting under separate cover sufficient edited and abridged copies of the report to supply the Venezuelan Government and the individual oil and iron ore mining companies that participated in the survey.[4]

The Embassy should distribute these copies to the addressees only after it has reviewed the report in sufficient detail to assure itself that the information contained therein can appropriately be released. In distributing the edited copies of the report the Embassy should emphasize the confidential nature of the survey and the necessity for restricting distribution of the report to those who need to know. No reference should be made to the participation of any agency other than the Department in making arrangements for the conduct of the survey, and no pertinent NSC or OCB documents should be cited.

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[4] Not printed.

After the copies of the report have been distributed to all addressees, the Embassy should discuss the report with appropriate officials of the Venezuelan Government and the individual oil and iron ore mining companies in order to determine the best procedure to implement the recommendations of the survey team. Wherever necessary, the report should be brought up to date by appropriate revision, and the Embassy should submit periodic reports of its progress in encouraging compliance with the recommendations of the survey team. Copies of the complete report have been distributed to interested agencies of the U.S. Government, but not to the U.S. affiliates of the companies that participated in the survey.[5]

Dulles

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[5] Documentation relating to the survey is in Department of State, Central Files 731.5 and 831.18.

Index

ABC countries (*see also* Argentina; Brazil; Chile), 415–421, 712, 813
Abrahin, Brig. Gen. Ramon A., 391–393
Acevedo Alvarez, Eduardo, 1087
Achilles, Theodore C., 987, 1063–1066, 1074, 1076, 1078n, 1080–1081, 1084–1085
Adams, Sherman, 145, 346–347
Agriculture, U.S. Department of, 637, 708, 799n
Aguilar Cornejo, David, 955, 956n
Aguiluz, Col. Marcial, 4
Agurcia, Jack, 193
Alexander, Robert, 186
Alfaro, Ricardo, 285
Alfonso XIII, King of Spain, 157, 171
Alizon García, Julio, 388, 390
Alkmin, José Maria, 692, 698n, 760
Altman, Oscar, 975
Alvarez Restrepo, Antonio, 939
Alzate Avendaño, Gilberto, 948
Amador, Edmundo, 234, 241
American and Foreign Power Company:
  Argentina, 351, 356–357, 389, 409–410, 414–415, 428, 435–440, 459, 464–466, 471–472, 475–476, 483
  Brazil, 708
  Guatemala, 101, 109–111, 112n, 129, 132–133
American Presidents Meeting, Panama. *See* Presidents of the American Republics Meeting at Panama.
American Red Cross, 168n, 926
Anaconda Copper Co., 804
Anaya, Ricardo, 928, 932
Anderson, Dillon, 18, 683
Anderson Robert B., 759–760, 793, 856, 1013, 1036, 1038, 1041–1042
Andrade Uzquiano, Victor, 508–510, 542–544, 613, 615–617
Antarctica, 506
Antezana Paz, Franklin, 578
Arab-American Oil Co. (ARAMCO), 1163
Arab League Oil Congress, 1162–1164
Aramayo, Juan Manuel, 587
Aramburu, Maj. Gen. Pedro Eugenio:
  Argentina:
    Economic situation, 472n
    Political situation, 383, 408, 454–455, 456, 495–498, 620
    United States, relations with, 390–391, 398, 421, 422–423
Arana, Col. Francisco Javier, 4, 187
Aranha, Oswaldo, 657, 670
Arbenz Guzman, Jacobo, 4, 29, 73, 91–92, 141, 148n, 162n, 166, 1108
Arcaya, Mariano, 1138
Archer, Renato, 722
Arenales, Jorge, 84–86
Arenales Catalan, Emilio, 79
Arévalo, Juan José, 187, 199n
Arey, Hawthorne, 421–423, 441, 633, 642–644, 705–708, 756n
Argentina (*see also Argentina and Argentine subheadings under other subjects*):
  Agreements with the United States:
    Bilateral military agreement, 506
    General Agreement for a Program of Technical Cooperation, 473
    Military agreement, 457, 479–484, 485n
  Anglo-Argentine Trade and Payments Agreement, 373–374
  ANSEC, 461–464, 471–475, 486
  Antarctic claims, 506

Argentina—Continued
  Argentine Mixed Steel Corporation, 389
  Banco de la Nacion, 412–413
  Brazil, relations with, 647, 661, 730
  Compañia Argentina de Electricidad (CADE), 389–390, 409, 414–415, 422, 428, 430–431, 435–436, 437*n*, 438, 475–476, 494
  Defense role of, 358–361
  Economic situation, 407–410, 425–426, 457–460
  Ecuador-Peru boundary dispute, 981
  Financial mission to the United States, 404–405, 412–415, 420, 427–440
  Industrias Kaiser Argentina, 464*n*
  ITALO, 409, 431, 435, 436, 475
  La Prensa, 375–376, 391, 456, 458, 885
  Law on Foreign Capital Investment, *1954*, 350–351
  Nationalization of foreign companies (*see also* Compañia Argentina de Electricidad (CADE), 429–432
  Outlook for, 495–498
  Paraguay, relations with, 1007–1008, 1015–1016, 1021–1023
  Petroleum agreements with foreign companies, 351, 359–360, 362–363
  Political parties:
    Communist Party, 426
    Democrats (Conservatives), 372
    Intransigent Radical Civic Union (UCRI), 408, 496
    People's Radical Civic Union (UCRP), 496
    Radical Party, 372, 408, 425, 457, 489
    Socialist Party, 372
  Political situation, 366–368, 377–384, 412–413, 424–426, 454–455, 456*n*
  Private investment in, 359, 409–410, 413–415, 418–419, 458, 469–473, 474–476
  Profit remittances by U.S.-owned companies, 350–352, 363–365, 369–374
  Radio Splendid, 392
  Railway upgrade, 435–436, 438–439, 442, 443*n*, 447, 458, 485, 491
  Rio Turbio coal mines, 485*n*, 498, 505*n*
  Sociedad Mixta Siderurgia, Argentina (SOMISA), 354, 362*n*
  SOFINA. *See* CADE *above*.
  Soviet Union, relations with, 703

Argentina—Continued
  Steel mill project, 352–355, 362, 364, 388–389, 398, 423
  "Third Position", 391
  Transcontinental Airlines, 504
  Tung oil exports, 1012–1014, 1018
  United Kingdom, relations with, 373–374
  United States, relations with, 379–380, 400–403, 498–507, 732, 1090
    Economic, 384–390, 403–407, 427–449
    Trade, 353–356
  U.S. economic assistance, 385–387, 391–399, 420–424, 460–469, 477–479, 485–495, 504, 703–704, 796–797
  U.S. military assistance, 385–387, 391–392, 394, 398–399, 410–411, 449–453
  Uruguay, relations with, 368–369, 380, 1093–1094
  Williams, Quimica, 464*n*
Argucia, Nicolas, 194
Arias, Arnulfo, 247*n*, 248, 333
Arias, Pancho, 250
Arias, Roberto E., 296–297
Arias Espinosa, Ricardo, 245, 248, 250, 259, 267, 278–280, 292, 295*n*, 321, 717*n*
Arias Madrid, Harmodio, 292, 294, 308
Arica pipeline, 523, 531, 599, 853
Armour, Norman, 49–50, 54, 59–62, 67, 70, 75–78
Armour and Company, 356*n*
Arms sales (*see also* U.S. military assistance *under individual countries*), 195–197, 203–205, 232–233, 235
Arms standardization, 1035–1036, 1039, 1054*n*, 1065
Armstrong, W. Park, Jr., 34, 420*n*, 860
Armstrong, Willis C., 1162
Arnold, Elting, 353, 441, 579, 705, 807
Artajo, Alberto Martin, 888
Aruba, 1168–1169
Atomic energy, 627, 648, 667, 672, 680, 711, 718–724, 744–745, 746, 772, 773, 1135
Atomic Energy Commission, 265, 646*n*, 680, 737*n*
Atomic weapons, 270
Atwood, Roland, 113–115, 117, 393*n*, 394*n*, 413, 589–590, 776, 777*n*, 1026*n*, 1027–1029, 1122

Atwood, Roland—Continued
  Brazil, 628*n*, 629–633, 636, 637*n*, 638, 640–641, 668
  Colombia, 855, 861–863, 865–866, 868
Avila Camacho, Ramon, 42*n*
Azucar Chavez, 35–36

Baister International Inc., 65
Banana Workers' Federation (FOBA), 22
Bandung Conference, 79
Bank of America, 916–917, 919
Banque de Paris et Pay Bas, 856
Barbosa Baeza, Enrique O., 810
Barbour, Walworth, 1077–1078
Barnes, Robert G., 119*n*, 380*n*, 411*n*, 449*n*, 712*n*, 820, 1051*n*, 1074–1076, 1145
Barrau Pelaez, Manuel, 535, 544, 572, 584, 592–595, 606, 609–611, 615–618, 620, 622
Barrientos, Cesár, 1022*n*
Barron Sánchez, Rear Adm. Emilio, 1073
Bartch, Carl E., 1138*n*, 1140*n*, 1149, 1152*n*, 1155*n*, 1156*n*, 1158
Batista y Zaldivar, Fulgencio, 245
Batlle Berres, Luis, 1086–1087, 1090, 1093–1094, 1096*n*, 1099–1101, 1104, 1109, 1113, 1117–1118
Battle, Laurie C., 794*n*
Beaulac, Willard L.:
  Argentina, 437*n*, 439*n*, 448*n*, 461*n*, 468–469, 471–473, 479–481, 483–486, 492*n*, 501, 505, 507
  Chile, 776–786, 793, 810–811
Belize, 105, 133, 140
Belton, William, 514*n*, 537*n*, 702–704, 791*n*, 793, 799*n*, 811, 816, 841, 897*n*, 919*n*
Beltrán, Pedro, 1067
Benedict, Daniel, 530
Benidorm Pact, *1956*, 943
Bennett, Jack F., 353–354, 715
Bennett, W. Tapley, 715, 1145
Berckemeyer, Fernando, 1026–1029, 1041–1043, 1046–1047, 1071–1075, 1081
Bermuda, 937–938
Bernbaum, Maurice M., 384*n*, 393*n*, 394*n*, 400*n*, 471*n*, 472*n*, 540*n*, 553*n*, 573*n*, 578*n*, 704*n*, 714*n*, 721*n*, 726*n*, 732*n*, 753*n*, 824*n*, 826*n*, 919*n*, 930*n*, 982*n*, 1056, 1150*n*, 1152*n*

Bernbaum, Maurice M.—Continued
  Argentina:
    United States, economic relations with, 398*n*, 404, 413, 421, 427–429, 437–439, 441, 446–448, 463–467, 469–470, 474–476
    U.S. military assistance, 399*n*, 449, 479
  Bolivia, 537, 544, 592
  Brazil, 689*n*, 702, 734–736
  Chile, 799, 804–806, 812–814, 816, 830–832, 841
  Colombia, 897, 916, 923, 926, 936
  Ecuador, 978–980, 987, 991, 996
  Venezuela, 1134, 1158
Bernstein, Edward M., 672
Betancourt, Rómulo, 199, 1139, 1150–1151
Bishop, Max W., 776*n*, 787*n*
Bittermann, Henry J., 353, 406, 441, 579, 705, 807
Black, Eugene, 420, 435, 471*n*, 604, 612, 708, 1089, 1100–1101
Blanco, Eugenio, 439*n*
Blankinship, Byron E., 855, 868–869, 874, 888*n*, 959
Blau, Clarence I., 441, 579, 807, 809
Blodgett, John Q., 434, 824*n*, 978
Blowers, George, 421, 434, 438, 579, 990*n*
Boggs, Marion W., 144*n*, 145
Bolivia (*see also Bolivia and Bolivian subheadings under other subjects*):
  Banco Minero, 517, 519
  Bolivian Army, U.S. support of, 537–540
  Brazil, relations with, 620–621, 661
  Central Bank, 517, 519
  Cochabamba, U.S. Consulate in, 604
  Corporations:
    Bolivian National Petroleum Corporation (YPFB), 561, 594*n*, 596, 608, 613
    Corporacion de Fomento, 519
    Corporacion Minera de Bolivia (COMIBOL), 517, 519, 582, 602, 607–610, 613, 616, 624–626
    Development Corporation, 582, 594
    Finase textile mill, 607
    International Mining Company, 607
    National Lead Company, 615
    Patiño Mines & Enterprises Consolidated, 549
    Petroleum Corporation, 582

- Bolivia—Continued
  - Economic development, 508–512, 514, 531–532, 576–588
    - Bolivian National Monetary Stabilization Councils, 517–522, 532, 535, 581, 589–592
  - Economic situation, 524–527, 547–553, 566–568, 592–615
  - Export-Import Bank loans to, 510, 523–525
  - International Bank for Reconstruction and Development, 599, 612–613
  - International Cooperation Administration, 532, 546*n*, 550*n*, 583, 598, 617
  - Labor unions, 510, 527, 560–562
    - Confederation of Bolivian Workers, 526
    - Labor Central (COB), 510*n*, 534, 559, 586–588
    - Mineworkers Federation, 562
    - Railroad Workers Confederation, 562, 564
  - Madrejones tract, 596, 599
  - Military situation, 564–566
  - Mines:
    - Bolsa Negra, 607
    - Catavi, 602
    - Chojlla, 607
    - Colquiri, 602
  - Mining Bank, 582
  - Mining Corporation, 582
  - National Lead Company, 615
  - Outlook for, 556–571
  - Paraguay, relations with, 998, 1005–1006, 1010, 1016–1017
  - Pipeline projects, 509, 523–525, 531, 599
  - Political parties:
    - Bolivian Socialist Falange (FSB), 556, 563, 588
    - Communist Party (PCB), 545, 550, 563
    - Movimiento Nacionalista Revolucionario (MNR), 528–529, 533
    - National Political Committee (CPN), 561
    - Nationalist Revolutionary Movement (MNR), 538, 556–571
    - Republican Socialist Union Party (PURS), 563
    - Revolutionary Workers Party (POR), 563
- Bolivia—Continued
  - Political situation, 510–511, 532, 556–564, 572
  - Rubber industry, 526–527
  - Siglo XX tin mine, 529
  - Texas City smelter, 509, 532, 545–546
  - Tin industry, 509, 526–529
  - United States, relations with, 544–547, 603–604
  - U.S. economic assistance, 576–577, 599–601, 604–605, 623–626
  - U.S. military assistance, 540–541
  - Wage increases, 510, 593–594, 597
  - Workers' militias, 529
  - Yacimientos Petroliferos Fiscales Bolivianos (YPFB), 519
  - Yungas, 607
- Bonilla, Julio, 151*n*
- Bonner, Herbert C., 314*n*, 316*n*
- Bonsal, Philip W., 298–299
  - Bolivia, 591–592, 595–606, 614
  - Colombia:
    - Economic situation, 886–887, 917, 919*n*, 929–930
    - Political situation, 879–881, 884–885, 894, 926, 932*n*, 933
    - United States, relations with, 896*n*, 897*n*, 923, 927
    - U.S. military assistance, 863–865, 871
- Boonstra, Clarence A., 642*n*, 644*n*
- Boundary disputes, 544
  - Bolivia-Brazil, 620–621
  - Costa Rica-Nicaragua, 197
  - Ecuador-Peru, 913, 954–958, 980–987, 1048, 1050*n*, 1051, 1065, 1069–1070
  - Honduras-Nicaragua, 156–159, 172–175, 178–181, 183, 592
  - Maritime disputes, 963, 1023–1029, 1043–1045, 1058, 1064
- Bowdler, William G., 1027
- Bowie, Robert R., 144, 337–339, 681, 1035
- Boyd, Alberto, 260*n*
- Boyd, Aquilino E., 262*n*, 267, 269*n*, 270, 275*n*, 276–277 323, 324, 325, 326, 340–342
- Braden, Spruille, 804
- Braggiotti, D. Chadwick, 35–41
- Bragonier, Reginald, 965, 966, 968*n*
- Brand, Paul J., 975
- Brand, Vance, 434, 436–437, 441–442, 448–449, 470, 471*n*, 489–492, 807, 817–820, 860, 941

Braniff Airlines, 927
Brannan, Charles T., 965
Brazil (*see also Brazil and Brazilian subheadings under other subjects*):
  Agreements with the United States:
    Fernando de Noronha Agreement, 751, 757–759, 770
    Guided Missile Station Agreement, 748–749, 768
    Mutual Defense Assistance Agreements, 715–717, 731–733
  Agriculture, 655–656, 678, 742
  American Chamber of Commerce, 631
  Argentina, relations with, 647, 661, 730
  Atomic energy, 627, 648, 667, 672, 680, 711, 718–724, 744–745, 746, 772, 774
  Banco de Brasil, 644*n*, 658, 671
  Bolivia, relations with, 620–621, 661
  Correio da Manha, 664
  Czechoslovakia, relations with, 661, 701
  Economic situation, 629–635, 642–644, 647–660, 665–677, 707, 738, 742–744, 761–765, 771–773
  Ecuador-Peru boundary dispute, 954–956, 981, 983–984, 985
  Fernando de Noronha, 713–714, 716, 724–730, 733–737, 747, 749, 751, 754*n*, 755*n*, 765, 769, 774
  Foreign exchange, 671–672, 678, 709, 743–744, 746, 760, 763–765
  Foreign relations of, 647–648, 660–661, 701–702
  Furnas power project, 756*n*
  Industry, 654–657, 678, 742–743
  Joint Brazil-United States Military Commission, 645, 750
  Labor, 653, 667, 672, 696, 699–700, 738–741
  Maceió, 716*n*, 748, 757, 771*n*
  Military situation, 647, 659–660, 725, 729–730, 757, 758–759
  National Security Council, 716*n*, 724, 727, 729–730, 744
  "New State", 649
  Petrobras, 476, 630, 639, 643, 644*n*, 693–694, 743*n*, 762, 765, 772, 774
  Political parties:
    Brazilian Labor Party (PTB), 649, 652, 654, 664, 671, 686, 696–697, 739, 740, 741
    Communist Party (PCB), 647, 653–654, 668, 671, 673, 678, 686

Brazil—Continued
  Political parties—Continued
    Liberator Party, 740
    National Democratic Union (UDN), 649–650, 652, 740–741
    National Emancipation League (LEN), 671
    Partido Popular Representacion (PRP), 668*n*
    Republican Party (PR), 740
    Social Democratic Party (PSD), 649–650, 652, 739–741
    Social Progressive Party (PSP), 671, 740–741
  Political situation, 645–654, 662–671, 715, 720, 737–741, 772
    Military, role in politics, 635, 651–653, 670, 684, 734–735, 737–739, 745–746, 757–758, 762–763, 772
  Private investment, 629–630, 653–655, 657–658, 687–688, 689–695, 711, 744–746, 762, 763–764
  Rio Political Police, 701
  Santos a Jundiai Railway, 681*n*
  Social conditions, 648, 741, 772–773
  Soviet Union, relations with, 661, 693–695, 701–704, 744, 766–767, 770–773, 774
  United States, relations with, 634–636, 660–663, 665, 672–673, 686–687, 696–698, 711, 744–746, 767
    Economic, 638–641, 646–648, 654–655, 661–663, 668–669, 674–677, 698, 783
  U.S. economic assistance, 630–638, 642–644, 658–661, 665, 699–700, 730, 762, 764, 774–775, 796
    Agricultural commodities, 628–629, 631–632, 663, 666, 684, 708, 710–712, 717, 718*n*, 734–736, 775
    Development projects, 681, 693–694, 742, 755–756
  U.S. military assistance, 643, 659–660, 725–726, 729–736, 745, 749–755, 757–759, 761–762, 769–770, 774, 1051
    Naval vessels, 1075
  U.S. military facilities in, 644–645, 673, 713–717, 724–730, 732–737, 745, 747–753, 757–758, 768–771, 774
  Uruguay, trade with, 1098
  Wages, 635, 657, 743

Brazil—Continued
  Western Europe, relations with, 661
Brewster, William, 1168
Bridgett, Charles, 604, 606, 618
Briggs, Ellis O., 721*n*
  Brazil, 705, 718–720, 731–732, 755–759, 764–767, 770–775
    United States, relations with, 723*n*, 735*n*, 761–763
    U.S. military facilities in, 724–725, 727–730, 735–737, 747–749, 751, 770–771
  Ecuador-Peru boundary dispute, 955, 980–982, 982*n*, 987
  Peru, 1043, 1048, 1056, 1061–1062
Briggs, William T., 540*n*, 553*n*, 573*n*, 578*n*, 592, 595, 601, 768
British Guiana, 1128*n*, 1153
British Honduras, 105, 133, 140
British Petroleum, 1163
Brownell, Herbert, Jr., 682
Brucker, Wilbur M., 266
Buchanan, Wiley T., Jr., 823
Budget, Bureau of the, 264, 752
Buenos Aires Economic Conference, *1957*, 1110*n*, 1157
Bulganin, Nikolay A., 416*n*
Bunge, Dr. Cesar, 355, 384
Bunker, Ellsworth, 168
Burgess, W. Randolph, 353–354, 441, 448*n*, 471*n*, 579–580, 603, 668, 705–707, 709, 807–808, 811
Burke, Adm. Arleigh A., 683, 915
Burland, Elmer G., 603
Burns, Arthur E., 441
Butz, Earl L., 441

Cabot, John M., 941–951
Cady, John, 434, 705, 941, 978–980
Café Filho, Joao, 627*n*, 633–635, 638, 646, 649, 651–652, 653, 657–659, 662–664, 667, 669, 715
Cahn, Rudolf E., 674–677
Calderón Guardia, Rafael Angel, 4, 24, 27
Calderón Reyes, Rafael, 880
Cale, Edward G., 674, 677*n*
Callander, C.L., 353, 441, 579, 807
Camara, Mario, 681
Campos, Roberto, 685
Canada, 203, 686–687, 767, 1157
Canessa, Roberto E., 34, 36, 43
Caracas Resolution *XCIII*, 395–396, 403, 409, 417, 572, 697*n*, 826, 1136
Caraccioli Moncada, Hector, 163, 164
Cardenas, José, 966
CARE, 949–951
Carias, Gonzalo, 160, 177, 182, 188, 191
Carías, Tiburcio, Jr., 169, 185–187
Carías Andino, Tiburcio, 176
Carías Castillo, Tiburcio, 160
Caribbean Defense Command, 877
Caribbean Legion, 229
Carles, Ruben, 340
Carney, Adm. Robert B., 867, 871
Carranza Amaya, Lt. Col. Rafael, 34
Carter, Albert E., 1014–1019
Carter, Prescott, 818–819, 827, 830, 836, 839, 852
Castello Nieto, Edmundo, 918
Castillo Armas, Carlos, 162*n*, 179
  Assassination of, 46, 142–146, 186–187, 245
  Guatemala:
    Foreign relations of, 4, 105–107, 165–166
    Political situation, 71–72, 88–96, 97–101, 120, 122–127, 138–139, 140–142
    United States, relations with, 52–53, 56–58, 61–63, 81–83, 87, 122, 128–129
    U.S. economic and military assistance, 65, 70, 73–74
Castiñeiras, Brig. Gen. Pedro, 389
Central Intelligence Agency, 646*n*, 737*n*
Chaco War (*1932–1935*), 558, 1011, 1016
Chamorro, Emiliano, 241
Chamorro, Humberto, 241
Chapin, Selden, 249–256
Chase Manhattan Bank, 66, 280, 1085
Chaves, Federico, 1001
Chavez, Dennis, 856
Chavez, Jose Maria, 855, 923
Chavez, Nuflo, 534, 561, 572, 587, 590
Chiang Kai-shek, 924
Chile (*see also Chile and Chilean subheadings under other subjects*):
  Agriculture in, 819–820, 833
  Antofagasta, 815, 826*n*, 827
  Balance of payments, 831, 843
  Economic situation, 787–792, 796–803, 811–814, 816–824, 828–833, 839–844, 848–854
  Ecuador-Peru boundary dispute, 981–982, 983–984, 986
  El Mercurio, 830, 847
  ENDESA, 831
  Exchange reform, 804–806, 852–854

- Chile—Continued
  - Labor, 788, 818
  - Military situation, 815–816, 820, 826–827
  - National Petroleum Enterprise (ENAP), 780
  - Pacific Steel Company (CAP), 817*n*
  - Political parties:
    - Conservative Party, 834
    - Liberal Party, 798, 834
    - Radical Party, 818
  - Political situation, 788, 812–813, 818, 823, 826, 828–829, 834, 846
  - Private investment in, 778–783, 789–790, 792–793, 804, 840, 844, 848, 853
  - Production Development Corporation (CORFO), 779
  - Soviet Union, trade with, 792–795, 812, 837
  - Stabilization program, 807–810, 824–827, 831, 835–836, 842–846, 848–851, 854
  - Unemployment, 796, 821, 848
  - United States-Chilean Stabilization Agreement, 810
  - United States, relations with, 781–786, 789–790, 1043–1044
  - U.S. economic assistance:
    - Agricultural commodities, 779–781, 796–801, 809–810, 816, 829, 838, 843, 851
    - Chilean position, 796–797, 819–820, 823, 830–832, 842–843, 845–847, 850–851
    - U.S. position, 776–777, 789–791, 799–803, 805–806, 816–817, 819–820, 824–825, 836, 838–844, 846
  - U.S. military assistance, 731–732, 820, 826–828, 1051, 1074–1075
- Chilson, Col. Robert A., 219–220
- China, People's Republic of, 328, 762, 815, 1106–1107
- Chiriboga Villagomez, José Ricardo, 954–955, 956*n*, 959–963, 966–967, 974, 981, 988–989, 990–997
- Christian Relief Service (CRS), 950–951
- Church-State relations:
  - Argentina, 366–368, 371–372, 376, 381–382, 396
  - Brazil, 653
- Church-State relations—Continued
  - Colombia, 856, 887–888, 892–899, 901–903, 907, 912, 921, 926, 928–929, 931–934, 937–938
  - El Salvador, 40
  - Guatemala, 88, 93
  - Paraguay, 1000
- Cicognani, Amleto, 368*n*
- Cisneros Sanchez, Manuel, 1081–1083
- Cities Services Oil Company, 685*n*
- Civil Aeronautics Board, U.S., 927
- Close de León, Lt. Col. Enrique, 71
- Coal, 485*n*, 499, 505*n*, 667, 816, 850
- Coast Guard, U.S., 716*n*, 753*n*, 754*n*, 771*n*
- COCOM, 794–795, 838*n*
- Coffee, 42–43, 238
  - Brazil, 630, 632–633, 635–636, 638–639, 654–658, 659, 665–667, 668, 671–673, 677, 684, 743–744, 746, 760, 762–763, 765, 773–774
  - Colombia, 878, 902, 908, 910–911
  - Guatemala, 65, 88, 90, 93, 100
- Cohen, Alex A., 11, 14
- Coll Benegas, Carlos, 412–415, 427–429, 433–440, 485–491, 493–495
- Collins, Gen. J. Lawton, 589*n*
- Colonial Bank, 919
- Colombia (*see also Colombia and Colombian subheadings under other subjects*):
  - Aerovias Nacionales de Colombia, 927
  - Agreements with the United States:
    - Aviation agreement, 895, 926–927
    - Friendship, Commerce and Navigation Treaty, *1951*, 856, 912
    - Military assistance agreement, *1952*, 872, 882–883, 891–892, 898
  - Anchicagá power project, 874
  - Banco Popular, 916–918
  - Banco de la Republica, 918
  - Bank of Bogota, 918, 941
  - Cali disaster, 926
  - Economic situation, 874, 910–912, 915–916, 930–931, 941
  - Ecuador, relations with, 880, 913
  - *El Tiempo*, 879–881, 884–885
  - *Espectador*, 880
  - Foreign relations of, 912–913
  - Guerrilla activity, 860, 864, 866–867, 895, 900–901, 907–910
  - Historical background on, 902–905, 942–944
  - Huila, 895, 908
  - *Information*, 880

Colombia—Continued
  Jornadas de Mayo, 944, 947
  Korean war debt, 857–858, 861–862, 870, 876, 889–891, 895, 912, 934
  Labor unions:
    Communist labor confederation (CTCI), 909
    Union of Colombian Workers (UTC), 907
  Magdalena Railway, 920
  Military situation, 909–910
  Mission Territory, 932–933, 938
  Napalm bombs, 866–867, 869, 870*n*
  National Association of Industrialists, 907
  National Commission on Criminal Investigation, 945
  National Constituent Assembly (ANAC), 942–944, 945–946
  National Federation of Coffee Growers, 907
  National Federation of Merchants, 907
  New Order, 943
  Outlook for, 900–915
  Panama, relations with, 913
  Parity Commission, 947
  Parity Commission on Institutional Readjustment, 945
  Paz de Rio steel mill, 856, 860, 875, 886–887, 896, 919–920, 941
  Peru, relations with, 880, 913
  Political parties:
    Colombian Communist Party (PCC), 900, 908–909
    Conservative Party, 860, 894, 900, 903–904, 905, 910, 937
    Frente Nacional, 945–946, 947–948
    Liberal Party, 860, 900, 903–904, 914, 937, 948
    National Action Movement (MAN), 942
  Political situation, 860–861, 894–896, 900–902, 935–938
  Press closings, 879–880, 884–885, 892, 921–922
  Protestants in, 856, 887–888, 892–898, 901, 912, 921, 926, 928–929, 931–934, 937–938
  Third Force, 942–943
  United States, relations with, 923
  U.S. economic assistance, 877–878, 926, 949–951

Colombia—Continued
  U.S. military assistance, 859–873, 876–877, 881–884, 898–899, 915, 922
  Venezuela, relations with, 913
  Waterston mission, 896
  World Bank mission, 886–887, 892, 929
Colombia University, 456, 815
Commerce, U.S. Department of, 265, 637, 794, 809
Committee of Presidential Representatives (CPR), 340
Commodity Credit Corporation (CCC), 200, 208, 210
Common Market, European, 767
Communism, 1148
  Argentina, 366, 390–392, 394–397, 402–403, 425, 506
  Bolivia, 510, 512, 528, 533–535, 542–543, 549–550, 563–564
  Brazil, 417, 647, 653–654, 660–661, 668, 671, 678, 680, 683, 686–689, 690–691, 694–702, 710–711, 717–718, 737–739, 741, 746, 765–766, 772–774
  Chile, 417, 782–784, 788–789, 803, 812–815, 826–828
  Colombia, 908, 914–915
  Costa Rica, 3–10, 12–15
  Ecuador, 988–991
  El Salvador, 37
  Guatemala, 75–78, 84, 90, 92, 96–97, 119–121, 124–127, 141, 147–148, 149–153
  Honduras, 160–161, 165–166, 184–185, 188
  Mexico, 687
  Nicaragua, 216
  Panama, 333, 341
  Paraguay, 1000, 1006–1007
  Peru, 1064, 1070
  Uruguay, 1103–1105, 1107–1108, 1111*n*, 1113
  Venezuela, 1129–1130, 1135–1136, 1152, 1153
Confederation of Latin American Workers (CTAL), 20–21
Conger, Edward S., 441*n*
Congress, U.S.:
  Acts of:
    Agricultural Act of *1956*, 1068
    Agricultural Trade Development and Assistance Act of *1954*. *See* P.L. *480*.

- Congress, U.S.—Continued
  - Acts of—Continued
    - Battle Act. *See* Mutual Defense Assistance Control Act of *1951 below.*
    - Civil Service Retirement Act, 311
    - Mutual Defense Assistance Control Act of *1951*, 793n, 794n
    - Mutual Security Act of *1954*, 513, 953, 1003n, 1030–1032, 1055
    - Mutual Security Act of *1956*, 166n, 239n
      - Smathers Amendment, 166, 170
    - Mutual Security Act of *1957*, 995n
    - P.L. *480*, 200–203, 513, 974, 1059, 1068
      - Brazil, assistance to, 627n, 628–629, 631–632, 663, 667, 684, 708, 710–712, 717, 718n, 734–736, 775
      - Chile, assistance to, 779–781, 796–801, 809–810, 816, 829, 838, 843, 851
      - Nicaragua, assistance to, 200–210
      - Uruguay, assistance to, 1097–1098, 1104–1105, 1109, 1115, 1117–1118
    - Public Resolution *17*, 499
    - Trade Agreements Extension Act, *1955* (P.L. *86*), 1082
  - Senate, U.S.:
    - Foreign Relations Committee, 932
    - Goulart's address to, 696
    - Panama Treaty, ratification of, 255, 258–259, 312
  - U.S. military facilities in Brazil, 769
- Copper:
  - Chile, 782–783, 803, 811, 823, 844
    - Exports to Soviet bloc, 792–795, 837
    - Legislation re, 778, 792–793, 799
    - Prices of, 821, 828–829, 833–835, 840, 843, 848, 852
- Corbett, Jack C., 508, 877–878, 891n, 953, 1033, 1040n
  - Argentina, 353–354, 393n, 394n, 441
  - Brazil, 632–633, 674, 681n, 705
  - Chile, 801, 804, 806n, 807
- Córdoba Cerna, Juan, 52–53, 56–57, 61–62, 64, 72, 99
- Córdova, Moreno, 606
- Cordovez Chiriboga, Fausta, 969
- Corliss, James C., 916
- Cornejo, David Aguilar, 1024, 1026n, 1027
- Cornes, Adm. Luis J., 367
- del Corral, Martin, 918, 941
- Corson, Harland J., 969, 974
- Cosenza Gálvez, Col. Francisco, 5, 49n
- Costa, Jasper S., 969
- Costanzo, Gesualdo A., 582n
- Costa Rica (*see also Costa Rica and Costa Rican subheadings under other subjects*):
  - *Adelante*, 21
  - Alliance of Costa Rican Women, 3
  - Chiriqui Land Company, 13
  - *Correo Semanal*, 21
  - Guatemala, relations with, 4–5, 141
  - Labor unions, 11–17, 20–22
    - Banana Workers' Federation (FOBA), 14–15
    - Fetraba, 15
    - General Confederation of Costa Rican Workers (CGTC), 3, 21
    - Rerum Novarum, 14, 15, 22
  - Military strength of, 22–25
  - National Committee of Partisans of Peace, 3
  - Nicaragua, relations with, 29, 197–199, 230, 233, 244, 246–247, 1069
  - Political parties:
    - Democratic Opposition Movement, 28
    - Independent National Republican Party, 20
    - National Liberation Party (PLN), 27–28
    - Partido Vanguardia Popular (PVP), 3, 19–22, 27
  - Sea level canal proposal, 306
  - U.S. economic assistance, 26–27
  - U.S. military assistance, 8–10, 18–19, 23, 25–26, 30–32
  - Venezuela, relations with, 244, 246
- Cotton, 101, 201, 206, 477, 1056, 1064, 1066, 1068–1069
- Cottrell, Sterling J., 628n, 629n, 632–633, 638–639, 662–663, 668
- Crabbe, Col. G.W., 978n
- Creet, Ricardo, 42
- Cruz-Coke, Eduardo, 777
- Cruz Salazar, José Luis, 52–54, 56–62, 71–82, 109–112, 117, 121, 125–129, 132n, 133–134, 153, 154n
- Cuba, 199, 235
- Cuevas, Francisco, 777n, 780
- Cuevas, Martin, 1019
- Cumming, Hugh, 144

Current Economic Developments, 792, 793, 812, 824*n*
Curtis, Edward Glion, 205, 218–222, 228–231
Cutler, Robert, 145, 346*n*, 347–349
Czechoslovakia, 661, 701, 912–913, 989–990, 1099, 1107

da Silva, Barbosa, 685, 693, 760
da Silva, Persio, 998, 1005
Dalton, William R., 589*n*
Darrow, Scudder, 949, 950
Davenport, Wortham, 550*n*, 615
Davidson, Irving, 235
Davila, Dr. Celeo, 158
Davis, Vice Adm. Arthur C., 644, 870, 876–877, 1025
Davis, Bainbridge C., 919*n*, 930*n*, 959, 978, 988, 990, 1122, 1133*n*
Davis, Roy, 249
de Barros, Adhemar, 652, 666–668, 670–671
De Bayle, Luis Manuel, 212, 220, 224, 241
De Beers, Jack, 874, 1095
de Lima, David, 1074*n*
Dean, John H., 441
Dearborn, Henry, 145, 362–365, 366*n*, 371*n*, 674, 870*n*, 882*n*, 888*n*, 1049–1050, 1086*n*, 1122
"Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism". *See* Caracas Resolution XCIII.
Declaration of Truth, 79
Defense, U.S. Department of:
  Brazil, 644–646, 714–717, 724–725, 729, 734, 737, 747*n*, 749–750, 751–753, 754*n*, 768–769
  Chile, 816, 820–821
  Colombia, 857–858, 861–862, 871, 873, 891
  Ecuador, 952*n*, 953
  Honduras, 169
  Korean war debts, 857–858
  Paraguay, 1016
  Peru, 1034, 1039–1042, 1050, 1052–1054
  Venezuela, 1141–1144
DeGruyter, Julius Alan, 888*n*, 898
DeLany, Walter S., 793–794
DeLarm, Jerry, 72
Delcore, Renato, 5
Delgado, Enrique, 200
Dembitz, Lewis N., 353
Development Loan Fund, 193
Devine, Frank J., 826*n*, 830, 837, 844, 852
Dias de Aguiar, Capt. Braz, 985, 986, 1065
Dillon, C. Douglas, 138, 487–492, 603, 997, 1076
Disarmament talks, 341
Dominican Republic, 189, 963, 1069
Dougherty, John, 72
Douglass, Maj. Gen. Robert W., Jr., 47, 391–392, 393*n*, 394*n*, 398, 891*n*
Dreier, John C., 156–159, 180, 199, 957*n*, 1025–1026, 1089–1090
Drew, Gerald A., 510–511, 518–522, 533–536, 547, 550–551, 553, 574*n*, 575*n*, 584, 587–590
Dubois, Juan Mauricio, 85
Dulles, Allen W., 19, 120, 143–145, 148*n*, 247*n*, 383, 682–683
Dulles, John Foster, 47, 75*n*, 213, 273*n*, 286*n*, 289*n*, 400*n*, 416*n*, 420*n*, 434*n*, 444*n*, 460*n*, 471*n*, 755*n*, 782, 784, 786*n*, 823, 1095*n*, 1096*n*
  ABC countries, 417, 712, 813
  Argentina, 429
    Political situation, 380, 412
    United States, relations with, 379, 385, 387, 432–433, 444–448
    U.S. economic and military assistance, 360–361, 420, 421–423
  Bolivia, 514, 544, 553, 573, 585, 603, 613, 615–616
  Brazil, 679–680, 690–691, 721–722, 732–734, 753
    United States, relations with, 673, 684–689, 695–698, 759–762
    U.S. economic assistance, 628–629, 637, 712, 717
  Chile, 777, 791–792, 799, 803–804, 814, 824–827, 843
  Colombia:
    Political situation, 860, 879, 921–922, 931, 938–940
    United States, relations with, 889, 923–925
    U.S. military assistance, 867, 870, 873, 922
  Ecuador, 962–963
  Guatemala, 52–53, 106, 122*n*, 146–147, 149*n*, 150–151

Dulles, John Foster—Continued
  Honduran-Nicaraguan boundary dispute, 170–171
  Honduras, 160–161, 194
  Organization of American States, 922
  Panama, 247, 259, 270, 295*n*, 309, 319, 345
  Panama Canal, 287–288, 290–291
  Paraguay, 1012, 1016–1017
  Peru, 1063–1065, 1069
  Sea level canal proposal, 302–304
  Uruguay, 1086–1087
  Venezuela, 1132, 1134, 1136, 1152, 1156, 1160–1161, 1168
Duncan, Adm. Donald B., 1026
Dunlap, Barbara E., 116*n*
Dunn, James Clement, 417, 633, 664–665, 673*n*, 678–679, 685, 689*n*, 693, 710–711, 716, 954*n*
Duran Ballen, Sixto, 966–967, 992*n*
Durand, Dana B., 119–121
Dustmann, Walter H., Jr., 954
Dutch Guiana, 1153
Dutra, Gen. Eurico Gaspar, 649, 664
Duval, John, 978

Economic Conference of the American States, Buenos Aires, *1957*, 1110*n*, 1157
Economic Defense Advisory Committee, 794*n*, 838*n*
Ecuador (*see also Ecuador and Ecuadoran subheadings under other subjects*):
  Agreements with the United States:
    Military assistance agreement, *1952*, 976
    Reciprocal Trade Agreement, *1938*, 964
  Ambato electric power project, 967
  CFP, 970
  Colombia, relations with, 880, 912–913
  Economic situation, 988–991
  Panama hats, 964
  Peru, relations with, 954–958, 980–987, 1048–1049, 1050*n*, 1051, 1065
  Quevedo-Manta highway, 967, 990*n*
  United States, relations with, 959–961, 962–965, 968–969, 991–993, 1044
  U.S. economic assistance, 969–975, 978–980, 993–997
  U.S. military assistance, 952–954, 976–978, 1051
Eder, George J., 546, 551–552, 578, 581*n*, 584, 586, 590–591, 603, 608
Edgerton, Glen E., 638, 779
Egypt, 284, 287, 291–293, 295, 299, 313, 614, 841, 1147
Eisenhower, Dwight D., 33, 168, 460*n*, 528, 727*n*, 782, 784, 853*n*, 921*n*
  Argentina, 380, 421, 456
  Bolivia, 546–547
  Brazil, 673, 684–685, 689, 699, 710–712, 714, 717–718, 728–729, 754–755, 764–767
  Chile, 814–816
  Colombia, 879–881, 941
  Ecuador, 968–969
  Guatemala, 69*n*, 87*n*, 106, 141–144
  Import quotas, 1064
  International Bank for Reconstruction and Development, 974–975, 994, 997
  Nicaragua, 220, 302, 303, 306
  Organization of American States, 922
  Panama, 277–281, 295*n*, 309–310, 318, 340, 345*n*, 346*n*
  Panama Canal, 291
  Paraguay, 1010–1011
  Peru, 1081–1083
  Sea level canal, 302, 306, 347–349
  U.S. energy supplies, 1119
  Uruguay, 1086, 1090
  Venezuela, 1134–1136, 1147–1149
Eisenhower, Mamie, 277
Eisenhower, Milton S., 278, 307, 456, 814, 868, 871, 1132, 1134
El Salvador (*see also El Salvador and Salvadoran subheadings under other subjects*), 33–46
  Guatemala, relations with, 141
  Labor, 42
  Lempa hydroelectric project, 39–40
  Machete plant, 39–40
  Mutual Defense Assistance Pact, 37
  Nicaragua, relations with, 45, 230, 233
  PAN, 37
  Partido Revolucionario de Unificacion Democratica (PRUD), 34, 37, 43–44
Elections:
  Argentina, 464–467, 485*n*, 496–498
  Brazil, 634–635, 646–647, 649–654, 665, 668–671, 679–680, 683, 739, 740, 745, 772
  Chile, 820–822, 834, 841, 849
  Ecuador, 965
  El Salvador, 36–37

Elections—Continued
  Honduras, 158–163, 176, 181–189, 193–194
  Peru, 1062–1063
  Venezuela, 1164–1167
Electric Boat Company, 1030, 1031, 1036, 1045, 1051, 1053, 1054
Electric power production. *See also* Compañía Argentina de Electricidad (CADE) *and* ITALO *under* Argentina:
  Argentina, 418, 475–476
  Bolivia, 531–532
  Brazil, 678, 707, 743*n*, 756, 773
  Chile, 816
  Colombia, 874
  Ecuador, 967
  El Salvador, 39–40
  Guatemala, 73, 101–102, 109–112, 128–129
  Uruguay, 1096, 1101, 1105–1106
  Venezuela, 1122, 1126
Eleventh Inter-American Conference, Quito, *1960*, 994, 996
Encisco-Velloso, Guillermo, 998–999, 1005
Energetic Worsted Corporation, 1091–1092
Erskine, Gen. Graves B., 387*n*
Espy, James, 1110*n*, 1114–1117
Esquivel, Mario, 198
Estigarribia, Eulogio, 1001
Estrada, Pedro, 1130*n*, 1138, 1166
European Economic Community, 767
Exchange Stabilization Fund, 808
Export-Import Bank of Washington (Eximbank), 1068
  Argentina, 352–356, 388–390, 398, 428, 434–449, 458, 485, 487, 489–492
  Brazil, 629*n*, 631, 674, 783
    Bank policies re, 681, 693, 742, 755–756
    Existing loans to, 643, 644*n*, 657, 658, 668, 671, 675, 692, 713, 736, 762
    Negotiations re, 637–639, 641, 712*n*, 718*n*, 730
    Refunding of, 671, 676, 702–710, 743
  Chile, 779, 796, 805–806, 809, 817–818, 830, 832*n*, 833–834, 836, 838–839, 842–848, 850–851, 853
  Colombia, 886, 892, 919–920, 941–942
  Ecuador, 974, 979, 989, 992, 994
  Honduras, 170, 185, 193
  Paraguay, 999*n*, 1016
Export-Import Bank of Washington—Continued
  Peru, 1057, 1084–1085
  Venezuela, 1144

Fábrega, José Isaac, 307
Fábrega, Octavio, 248, 252, 255, 258–259, 292, 308
Facio, Gonzalo, 5
Federal Bureau of Investigation, 646*n*, 737*n*
Federal Reserve Banks, 629*n*, 675, 707, 810, 845, 848, 854
Federal Reserve Board, 809
Fernándes, Raúl, 631, 638, 640–642, 644, 954*n*
Fernandez, Col. Romulo, 1153
Ferreto de Saenz, Adela, 21
Fiat, 1128*n*
Figueres Ferrer, José, 2, 4, 9–10, 11, 15–17, 27–29, 105, 141, 197, 199, 230, 244, 246–247
Finucane, Charles, 282–284, 315
First National City Bank of New York, 66, 280, 845, 931
Fishburn, John T., 138*n*, 526–531, 969, 978*n*, 980, 1111*n*
Fisher, Allen J., 705
Fisher, John W., 51–52, 56–58, 71, 110*n*, 113, 115, 117
Fisheries (*see also* Territorial waters), 963, 1023–1029, 1043–1045, 1058, 1064
Fives-Lille, 1021
Flores, Oscar, 160
Flores Avendaño, Guillermo, 147, 149–151, 152–154
Flores Gomez, Raúl, 190
Folsom, Robert S., 1050, 1054*n*
Fonseca, Maj. Gen. Deogracias, 935*n*, 936*n*, 944
Ford, Bacon and Davis, Inc., 532, 551–552, 614, 621
Ford Foundation, 192
Foreign capital, 350–352, 363–365, 369–374, 657, 688–694, 762, 763, 778–783, 789–790, 792–793, 803, 840, 844, 848, 853, 1156–1157
Foreign Operations Administration, 8, 51–52, 55, 513, 667, 672, 787
Fossati, Umberto, 535, 606
Fox, Alonzo P., 716*n*
Fox, C.B., 208
France, 1078

Francis, Clarence, 200*n*
Frechtling, Louis E., 732*n*
Freeman, Roger R., 581*n*, 582*n*
Friele, Berent, 678
Frondizi, Arturo, 408, 482
Furth, J. Herbert, 441, 705

Gabbert, Howard M., 949
Gainza Paz, Alberto, 375–376, 456–460, 463, 465, 885
Gaitan, Col. Francisco, 212, 224
Gaitan, Jorge Eliecer, 903
Gallagher, Edward Patrick, 1168
Gallardo, Conrado, 542
Galloway, George, 978–980
Galvez, Juan Manuel, 177, 186, 194
Galvez Barnes, Roberto, 163, 164, 176–178
Gamboa, Enrique, 916*n*
Gámez-Bonilla Treaty, 156–157
Garcia Peña, Roberto, 880
Garcia Prieto, Federico, 35
Garner, Robert L., 874–875
Garnett, Gwynn, 705, 708
Gaudin, Raúl, 1114
General Agreement on Tariffs and Trade, 83–84, 1108–1109
General Dynamics Corporation, 1051
Gerberich, Albert H., 855, 931*n*, 954
  Colombia:
    Economic situation, 854, 896, 915–919, 930–931, 941
    Political situation, 900*n*, 926–928, 933
    Protestants in, 854, 887, 888*n*, 897, 928, 931–933
    U.S. economic assistance, 919–920, 949
    U.S. military assistance, 855, 859, 863*n*, 915
Germany, Democratic Republic of, 913, 1106
Germany, Federal Republic of, 1103
Geyelin, Philip, 367
Gibb, Rulon, 441
Gilmore, E.A., Jr., 518, 572–573, 576*n*, 604, 606
Gisbert Nogué, Miguel, 590*n*
Gleason, S. Everett, 247*n*, 383, 682–684
Glendinning, C. Dillon, 353, 441*n*, 807, 953
Gomez, Laureano, 860, 895, 903–904, 927, 939, 942–943
Gomez Flores, Col. Manuel, 212–213, 216, 224, 226
Gomez Hurtado, Alvaro, 945
Gomez Morales, Alfredo, 352*n*, 358, 362*n*, 369–370, 372–373
Gonzales, Natalicio, 1001
Gonzales Lopez, Luis Arturo, 142, 146, 186
González, César, 1132–1134, 1147–1149, 1152, 1160–1161
Gonzalez, Col. Camilo, 212, 224
Goodpaster, Col. Andrew J., 307, 380*n*, 968*n*
Goodyear, John, 68*n*
Gordon, David, 107–109, 113–117
Goulart, Joao, 417, 664, 666–667, 670, 680, 683, 693*n*, 695–700, 737–741
Grace Bank, 917, 919
Grady, Henry, 916
Gray, Gordon, 398*n*, 577, 732*n*, 898, 956–957, 1050, 1052–1053
  Argentina, 361*n*, 387, 411*n*, 452, 453*n*
  Brazil, 714–717, 749, 751–753
  Panama, 306*n*, 314, 322
  Venezuela, 1131, 1137–1138, 1141, 1145, 1152, 1159
Green, Theodore F., 272, 617, 621
Guano, 1045, 1079
Guardia, Ernesto de la, Jr., 280, 297*n*, 307–308, 318–321, 323, 325, 340, 343, 345
Guatemala (*see also Guatemala and Guatemalan subheadings under other subjects*):
  Committee of Anti-Communist University Students (CEUA), 100
  Costa Rica, relations with, 4–5, 141
  Economic situation, 83, 100–104, 107–109
  El Salvador, relations with, 141
  Empresa Electrica, 73, 102, 128–129
  Expropriated German property, 65–66, 100
  Foreign relations of, 79–80, 104–105
  Hemispheric defense role in, 47–48, 81
  Honduras, relations with, 165–166
  Internal security situation, 75–78, 85
  International Railways of Central America (IRCA), 152
  Labor, 97–98, 120–121, 138–139
    Consejor Sindical de Guatemala (CSG), 98, 139
    Federacion Autonoma Sindical (FAS), 98

- Guatemala—Continued
  - Labor—Continued
    - SAMF, 139
  - Marinela power plant, 110–112, 128–129
  - Military strength of, 47, 94–96
  - Nicaragua, relations with, 141
  - Outlook for, 87–106
  - Petroleum, 63–64, 73, 101
  - Political parties:
    - Christian Democratic Party, 153
    - Frente de Recuperacion Nacional, 96
    - Liberal Party, 100
    - Movimiento Democrático Nacionalista, 146
    - National Anti-Communist Front (FAN), 92–93, 95
    - National Democratic Association (ANDE), 100
    - National Democratic Movement (MDN), 100, 153
    - Partido Guatemalteco de Trabajadores (PGT), 152
    - Partido Revolucionario (PR), 148, 149*n*, 151–152
  - Political situation, 49–50, 71–72, 87–100, 119–127, 131, 148–154, 186–187
  - United States, relations with, 52–63, 81–83, 87, 109–118, 128–129, 131–133
  - U.S. economic assistance, 51, 55–56, 59–60, 61–62, 65–67, 72–75, 80–81, 84–85, 118–119, 121–122, 129–132, 135–138, 139–140
  - U.S. military assistance, 68–70, 96, 133–134
  - Venezuela, relations with, 1124–1125
- Gudin, Eugenio, 627–631, 633–634, 637–638, 641–644, 665*n*
- Guerrero, Lorenzo, 212
- Guerrillas, 860, 864, 866–867, 895, 900–901, 907–910
- Guevara Arze, Walter, 510, 518–522, 560
- Guimoye Hernandez, Emilio, 1057–1058
- Guizado, Jose Ramon, 244, 248–254, 257
- Gulf of Fonseca, 158
- Gulf Oil Company, 1163
- Gutierres, Victor Manuel, 120
- Guzmán, Mauricio, 42

- Haiti, 48, 1069, 1125
- Hamer, Walter, 12, 15–17
- Hammond, Henry S., 886*n*, 887, 917
- Hanford, Col. Thomas B., 315, 589*n*, 734*n*, 768, 958
- Harley, Charles R., 393*n*, 394*n*, 801, 807, 891*n*, 1056*n*
- Harlow, Bryce N., 282
- Harrington, Julian F.:
  - Panama:
    - Radar sites in, 260*n*, 269*n*, 270, 275*n*, 276–277, 296–298, 330–331
    - United States, relations with, 262, 267–268, 297–298, 327–336, 340
  - Panama Canal issues, 272–273, 279, 292, 294, 307–308, 341, 344
  - Sea level canal proposal, 301, 304–305, 315, 316*n*
- Harrison, Landreth, 18
- Harrison, Lt. Gen. William H., 260*n*, 262, 275–276
- Hauge, Gabriel, 1013, 1120*n*
- Havemeyer, John K., 1005, 1095–1096, 1100
- Haya de la Torre, 913
- Hayden, William R., 579
- Hay-Pauncefote Treaty, *1901*, 288
- Hemisphere defense, 9, 47–49, 81, 358–361, 450, 862, 909, 1003–1004, 1041, 1075
- Hendricks, James, 1095–1096
- Hensel, H. Struve, 47–49, 68, 1029–1036, 1040
- Hermansson, Maj. Gen. Gustavo, 392
- Herrera Palacios, Oscar, 796–797, 803, 816–817
- Herter, Christian, 137, 142, 342–343, 349, 540, 603, 754*n*, 823, 1081*n*, 1155
  - Argentina, 454, 455*n*, 472–473, 507*n*
- Heurtematte, Bobby, 268
- Hill, John C., Jr., 49*n*
- Hill, Robert C., 12, 33, 35–37, 39–43, 199, 269, 361, 899
- Hilles, Charles, 603
- Hilton Corporation, 995
- Hilton, Ralph, 1013–1014, 1122
- Hincke, Frederick, 202
- Hiss, Alger, 857
- Hogaboom, Maj. Gen. Robert E., 683
- Holaday, William M., 144
- Holland, Henry F., 84*n*, 366*n*, 382*n*, 407, 514*n*, 628*n*, 674*n*, 676*n*, 677*n*, 685*n*, 689*n*, 776*n*, 803*n*, 882*n*, 891, 1003*n*, 1033*n*, 1096*n*
  - ABC countries, 416–421, 712, 813

Holland, Henry F.—Continued
  Argentina:
    Nationalization of foreign companies, 413–415, 418, 429–431
    Political situation, 367–368, 379, 383–384, 412–413
    United States, economic relations with, 355–357, 384–390, 393–394, 404–405, 428, 439–440, 444–446
      Profit remittances by U.S.-owned companies, 350–351, 369, 372–373
      U.S. investment in, 409–410
    United States, relations with, 374–375, 401–403
    U.S. economic assistance, 394–396, 420–424, 434
    U.S. military assistance, 360, 390–391, 410–411
    Uruguay, relations with, 368–369
  Bolivia, 511–512, 521, 523–524, 544, 547, 552–555, 576
  Brazil:
    Economic situation, 629, 632–633, 674, 690–695, 699–700
    Political situation, 668, 680, 682–683, 695–698
    United States, relations with, 666–667, 673–674, 685, 692, 713, 720–721
    U.S. economic assistance, 636, 637–638, 640–644, 681–682, 702–704, 717, 718*n*
  Chile, 786, 795, 801–804, 807, 812, 814, 816–817
  Colombia, 874–875, 919, 923–924
    Political situation, 879–880, 884–885, 887, 897, 921–922, 929, 938
    U.S. military assistance, 859–861, 865–868, 870–871
  Costa Rica, 10, 198–199
  Ecuador, 954–958
  Guatemala:
    Economic situation, 64–67, 83–86, 109–117, 121–125
    Political situation, 122–127
    United States, relations with, 53–58, 60, 63, 71–72, 106–107
    U.S. economic assistance, 59, 64–67, 74–75, 80–81, 84–85, 118, 121–122
    U.S. military assistance, 69

Holland, Henry F.—Continued
  Honduras, 159–160, 200
  Latin America, 889
  Nicaragua, 198–200, 205–207, 209
  Panama:
    Canal issues, 258–259, 291–295, 310
    Political situation, 248–249, 252*n*
    United States, relations with, 262–263, 266–267, 269, 271–275, 279–280
  Paraguay, 998–999, 1006, 1010–1011
  Peru, 1063–1064, 1067–1071
    Economic situation, 1048–1050, 1056–1058
    U.S. military assistance, 1029–1030, 1033–1041, 1043–1045, 1050, 1051*n*, 1054–1055
  Sea level canal proposal, 301, 303–304, 306*n*
  Uruguay, 368–369, 1087–1089, 1091, 1093, 1094*n*
  Venezuela, 1122–1126, 1129, 1132–1135, 1137–1139
Holland, Spessard L., 856
Hollister, John B., 18, 138, 441–442, 577, 603, 692, 1059–1061, 1141–1146
Honduras:
  Anti-Americanism in, 161
  Coco River, 171, 175
  Cruta River, 171, 174–175
  Dominican Republic, relations with, 189
  Economic situation, 191–193
  El Salvador, relations with, 45
  Guatemala, relations with, 165
  Military situation, 163–165, 174, 188–189
  Mosquitia, 170–172, 174–175
  Nicaragua, relations with, 156–159, 170–175, 178–181, 184
  Political parties:
    Communist Party, 160, 185–186, 188
    Liberal Party, 158–161, 174, 176–178, 182, 187–190
    Nationalist Party, 160, 176–178, 182, 187–189, 191
    National Union Party, 163
    Reformist Party, 160, 175–177, 188, 189–191
  Political situation, 159–160, 174–178, 182–184, 189–194
  Portillo de Teotecacinte, 156–158
  Puerto Cortes-San Lorenzo highway, 192

Honduras—Continued
  United States, relations with, 161–162, 165–169, 169–170
  Segovia River, 171
  U.S. economic assistance, 165–167, 169–170, 179, 183–184, 192, 193–194
  U.S. military assistance, 155–156, 168–169
Hooker, John S., 441, 579, 705, 807
Hoover, Herbert C., Jr., 18, 68*n*, 122*n*, 203–204, 213*n*, 385*n*, 412*n*, 416*n*, 525*n*, 628*n*, 632*n*, 667*n*, 732*n*
  Argentina:
    Political situation, 366, 379
    United States, economic relations with, 354, 383–384, 387
  Bolivia, 511, 513, 516, 523–524, 574–575, 578
  Brazil:
    Atomic energy, 627*n*, 723–724
    Economic situation, 633, 690*n*
    United States, relations with, 666, 690, 748
    U.S. economic assistance, 627*n*, 628–629, 631, 637
    U.S. military assistance, 726
  Chile, 776–777, 779–780, 786–787
  Colombia, 882
  Ecuador, 957*n*, 968–969
  Guatemala, 81*n*, 84, 87, 106, 118
  Honduras, 165–166, 169–170
  Panama Canal, 286*n*, 287*n*, 306
  Peru, 957*n*, 1035–1036, 1038–1040, 1050–1052
  Venezuela, 1129, 1130*n*, 1138–1140
Hopkins, John A., 370*n*, 373, 978–979
Howe, Fisher, 286*n*, 290*n*
Hoyt, Henry A., 143*n*, 146, 161*n*, 284*n*
Hudson, Dr. Manley P., 158
Huerta, Raul Clemente, 965
Hughes, John C., 589*n*
Hughes, Rowland R., 263–265
Humphrey, George, 144, 421–424, 434*n*, 471*n*, 680, 1064, 1095*n*
  Brazil, U.S. economic assistance, 628, 629*n*, 637–638, 665, 667, 712*n*
Hungary, 661, 723*n*, 964, 1148
Hutchinson, Edmond C., 353, 441, 579, 705, 807

Ibáñez del Campo, Carlos, 777–780, 796–797, 812–820, 822, 825–826, 834, 838, 839*n*, 848, 850, 853, 1079
Ibarborde, Adm. Jorge Pedro, 379
Ibarra, Nestor, 929*n*
Iliff, W.A.B., 1106
India, 762
Infante, Roberto, 834
Inflation:
  Brazil, 629–630, 650–651, 655–659, 665, 707, 742–743, 746, 755–759, 763–765
  Chile, 788, 790–791, 795–796, 797*n*, 798*n*, 800–802, 813, 816–817, 818–824, 827–829, 831–834, 836, 839–844, 845–846
    Stabilization program, 807–810, 824–828, 831, 835–836, 842–847, 848–851, 854
Intelligence Advisory Committee, 143–144, 643*n*, 646*n*, 737*n*
Inter-Agency Staff Committee on Surplus Disposal (ISC), 200–202, 207–209
Inter-American Committee of Presidential Representatives, 307, 309
Inter-American Defense Board, 192, 660, 1004
Inter-American Economic and Social Council, 509, 627, 631, 1064
Inter-American Highway, 25, 66–67, 74–75, 80, 86, 103, 210, 258
Inter-American Regional Organization of Workers (ORIT), 139, 530, 700
Inter-American Specialized Conference of Conservation of Natural Resources: Continental Shelf and Marine Waters, *1956*, 963
Inter-American Treaty of Reciprocal Assistance (Rio Treaty), *1947*, 159*n*, 180, 392, 752–753, 856–857, 872
International Bank for Reconstruction and Development, 39, 193, 693, 967, 1100
  Argentina, 394, 409, 417, 433–436, 443, 475, 491
  Brazil, 643, 675, 706, 708–709, 764, 783
  Chile, 791, 796, 816–817, 830, 832*n*, 836, 850
  Colombia, 874–875, 878, 896, 919–920
    World Bank mission, 886–887, 892, 929
  Guatemala, 73, 103, 107–109, 116–117
  Honduras, 185, 193–194
  Paraguay, 1016
  Uruguay, 1096–1097, 1100–1101, 1105–1106

International Coffee Office, 672
International Cooperation Administration:
  Argentina, 394, 442
  Brazil, 708
  Chile, 816
  Colombia, 892, 950
  Costa Rica, 31–32
  El Salvador, 38, 42
  Guatemala, 108
  Honduras, 170
  Peru, 1059–1061
International Finance Corporation, 1016
International General Electric Corporation, 1128
International Monetary Fund, 73, 185, 237, 442, 578, 672, 764, 973–974, 1085
  Argentina, loans to, 394, 409–410
  Chile, loans to, 779, 787, 791, 796, 802, 804–810, 830, 836, 839, 840, 842, 845–848, 851
International Packers, Inc., 1087
International Police Services, Inc., 1168
International Railways of Central America (IRCA), 52, 101, 102
International Sugar Agreement, 1057
International Sugar Council, 1066
International Telephone and Telegraph Company, 546*n*, 603
International Trade Organization, 1157
Interoceanic Canals Commission, 264
Intriago A., J. Federico, 966–967, 974, 980, 996–997
Irving Trust Company, 916–917, 919
Italy, 631, 1078
Izaguirre, Gen. Carlos, 168

J.A. Jones Construction Company, 990, 992
Jacinto Rodriguez, Rogue, 163
Jamaica, 937
Jamison, Edward A., 69–70, 197, 360*n*, 870*n*, 1029*n*, 1033, 1035, 1038, 1040*n*
Johnson, Charles E., 19*n*
Joint Brazil-United States Military Commission, 645, 750
Joint Chiefs of Staff, 47–48, 361*n*, 480, 751–752, 862, 915, 1033, 1141
  Sea level canal, 264–265, 347–349
  Territorial waters, 1025–1026
Jones, W. Alton ("Pete"), 685, 690
Juarez Tavora, 652, 668, 670

Kalijarvi, Thorsten, 209–210, 421, 423, 477, 579, 712*n*, 835, 856, 934, 964, 1137
Karasz, Arthur, 520–521, 522*n*, 532
Karydakis, Mabel, 59*n*, 856, 956*n*
Katz, Samuel I., 579
Katz, Saul M., 949–951
Kemmerer, Edwin W., 520*n*
Kemper, James S., 627–629, 631–636
Kempter, Charles W., 959–961
Kendall, David W., 1096*n*
Keskinen, Viola M., 54*n*
Kimmel, Roy I., 167–168, 169–170
King, Bayard, 41–43, 117, 125, 128, 131–133, 138
King, Spencer, 553*n*, 576–577, 701–702, 803, 901*n*, 1106–1107
Klakring, Thomas B., 1041
Klein, Julius, 52*n*, 787, 790–791
Klein and Saks:
  Argentina, 418
  Chile, 787, 790–792, 795, 798–799, 801, 803, 805, 806*n*, 808, 811, 824*n*, 827, 829, 830, 831, 834–835, 840, 848, 850, 852
  Guatemala, 51, 55, 62, 64, 107–109, 113–115, 141
  Peru, 831
Knapp, Burke, 107–109, 110*n*, 113–117, 874–875, 919
Knox, Charles, 852–854
Korea, 880
Korean war, 410, 857–858, 861–862, 870, 876–877, 889–891, 895, 912, 934
Krause, Julio C., 380*n*, 392
Krieg, William L., 51, 71, 288*n*, 855
Krieger Vasena, Adalberto, 455*n*
Kubitschek, Juscelino:
  Brazil:
    Atomic energy policy, 717–718, 722
    Bolivia, relations with, 620
    Economic situation, 689, 694, 742–743, 691*n*, 702*n*, 765
    Political situation, 701, 709, 718, 737–741, 746, 762, 766–767, 772
    United States, relations with, 678–681, 684–689, 692, 696–697, 706, 718–720, 744–745, 747, 754–755, 759–760, 767
    U.S. economic assistance, 710–713, 717
    U.S. military base agreements, 714, 724–725, 727–730, 734–735

Kubitschek, Juscelino—Continued
  Election of, 417, 646, 652, 663, 664–670, 680, 683, 691, 715

Labor unions, 42, 788, 818, 1102–1105, 1135–1136, 1165–1166
  Argentina, 382, 497
  Bolivia, 510, 527, 560–562
  Brazil, 654, 666, 672, 695–696, 699–700, 738–741
  Colombia, 907, 909
  Costa Rica, 3, 11–17, 20–22
  Guatemala, 97–98, 120–121, 138–139
Lacarte Muró, Julio A., 341–342, 1100–1101, 1105
Land reform, 91, 98, 1067–1068
Lanza, Orestes L., 1105
Larsen, Roy, 166
Lasso de la Vega, José, 253
Latifundismo, 853
Lawyer, Mrs., 221
Lay, James S., Jr., 145, 683
Lazarus, Roberto, 192
Lead, 613, 1076–1077
Leal, Estillac, 652
Leavey, Gen. Edmund H., 603
Lechín Oquendo, Juan, 510, 520, 526, 534–536, 550, 557, 560–562, 572, 584, 586–588, 620
Leddy, John M., 49–52, 82–83
Leffingwell, William M., 449*n*
Lemus, Col. Jose Maria, 34, 41*n*, 42–46, 141, 838
Levy, Cecil, 221
Lezama, Arturo, 1110–1118
Lins, Etelvino, 666, 668
Lister, E.A., 579, 864
Llamazares, Juan, 399
Lleras Camargo, Alberto, 906, 927, 937, 944–947
Llosa, Adm. Luis Edgardo, 1072–1073
Lloyd, John Selwyn, 288*n*
Lockett, Thomas H., 801, 816, 852, 854
Lodge, Henry Cabot, Jr., 79, 213, 867, 871–872, 1005*n*
Lonardi, Maj. Gen. Eduardo A., 379, 383, 397, 1008
London Suez Canal Conference, 289*n*, 294, 297*n*
Lone Star Cement Company, 390
Lopez, Lucas, 682*n*
Lopez, Oswaldo, 177, 184
Lopez Perez, Rigoberto, 211
Lopez Pumarejo, Alfonso, 903
Loreto Arismendi, José, 1147–1148
Lott, Gen. Henrique Texeira, 737–740, 745
Lozano Díaz, Julio, 155–156, 157–160, 163, 164–168, 176–177, 185
Lucero, Gen. Franklin, 367
Luongo Cabello, Edmundo, 1140
Luque, Cardinal, 933
Lutz, Russell, 917–918
Lyon, Cecil B., 200*n*, 367*n*, 674, 677*n*, 817*n*, 893–894, 956*n*, 962, 1005–1006, 1096*n*
  Argentina, 378*n*, 381–383, 407
  Bolivia, 542–544
  Chile:
    Economic situation, 821, 824*n*, 825*n*, 827–828, 832*n*–833*n*, 833–835, 839*n*
    U.S. economic and military assistance, 826*n*, 838–839, 840–844
  Peru, 1046–1048, 1054*n*
  Uruguay, 1095, 1099

MacArthur, Douglas, II, 306*n*, 327*n*, 1131
McAuliffe, Eugene V., 552*n*
McCardle, Carl W., 923
McCarthy, Glen, 529
McClellan, Harold C., 400*n*, 617
Macedo Soares, 719, 723*n*, 730, 747–748, 757, 758–759, 770
McElroy, Neil, 349
McGinnis, Edgar L., Jr., 1027–1028, 1029*n*, 1041–1042, 1046, 1056–1057
McGuire, E. Perkins, 820*n*, 915
McIntosh, Dempster, 1090–1094, 1133*n*, 1153–1154, 1167–1168
McKee Construction Company, 856
Mack, Victor A., 705
Mackintosh Derqui, Guillermo, 404
McLaughlin, Glenn E., 353
Macomber, William B., Jr., 290*n*, 870*n*, 923
Macy, Robert M., 353
Maffry, August, 917–918
Magloire, Paul E., 1086
Magsaysay, Ramon, 1086
Manger, William, 1129
Mann, Thomas C., 41*n*, 45–46, 49–50, 52–61, 63–64, 71, 81, 487, 993–995
Mansfield, Michael J., 328, 612
Marchena Moraga, Isaias, 14–15, 22
Marget, Arthur W., 579, 705, 707, 807, 809

Maria Moors Cabot prizes, 456
Marine Midland Bank, 919
Marroquin Rojas, Clemente, 72
Marshall Plan, 627
Martin, William McC., Jr., 579
Martinez, Maj. Alfonso, 4–5
Martinez, Rodolfo, 439*n*
Martinez Cabañas, Gustavo, 521–522
Matteson, Robert, 682
Mazzei Carta, Brig. Gen. Oscar, 1128, 1153
Meany, George, 699–700
Meatpacking:
  Argentina, 356*n*, 357*n*, 390, 418–419, 422, 438, 440, 470*n*, 474–475, 482
  Uruguay, 1087–1089, 1102, 1110, 1116
Mehaffey, J.C., 264
Mejia, Gabriel, 192, 194*n*
Mejia Morales, Aníbal, 4–5
de Melo, Tarcilo Vieira, 741
Memminger, Robert B., 253, 256, 268
Mena-Solorzano, Luis, 213, 224
Mencos, Mario, 139
Mendez Fleitas, Epifanio, 1001–1003
Méndez Mérida, Juan, 323
Mendez Montenegro, Mario, 151–152
Mendieta Alvarez, Eduardo, 518
Mendoza, Esteban, 158, 164, 172, 177, 181*n*
Mendoza, Eugenio, 1151
Mendoza, Gen. Juan, 1063
Mendoza Azurdia, Col. Oscar, 71, 146
Menendez Gilbert, Pedro, 952
Merrill, Robert T., 306*n*
Merritt, Roy, 780
Mexico, 105, 461, 523, 530, 612, 654, 687, 1100
Meza Ayau, Rafael, 35, 39–40
Miles, Rear Adm. Milton E., 267, 872
Military Assistance Advisory Groups:
  Chile, 820, 826*n*
  Colombia, 863
  Ecuador, 952, 976–977
  Uruguay, 1102–1104
Milla Bermudez, Francisco, 160, 185
Mills, Sheldon T., 952, 963
Minerals and mining:
  Bolivia, 509, 526–529, 531, 545–546, 582, 602, 606–607, 615–616
  Brazil, 628, 648, 654–655, 661, 680, 711, 742, 743*n*, 744, 774
  Chile, 790, 822, 831, 833, 844, 850–851
  Peru, 1076–1077,
Miro, Ruben, 248, 250–253
Mitterling, Col. Robert O., 1102
Molas López, Felipe Benigno, 1001
Molina, Adolfo, 152
Moller, Edwin, 564*n*
Monge Alvarez, Luis Alberto, 11–15
Montealegre, Jorge, 210, 237–238
Montenegro, Mario A., 592
Montes de Oca, Bernardo, 5
Montiel Arguello, Alejandro, 181*n*, 219
Monzon Aguirre, Col. Elfego Hernan, 71, 92–93
Moon, Richard B., 235–237
Moore, Ernest O., 581*n*, 584
Moore, Ross, 551, 589–590, 598, 606, 618
Moraotero, Jose Antonio, 1095
Mora Valverde, Manuel, 3, 21
Morales Gomez, Luis, 916, 917, 929*n*, 930–931, 936, 937
Morales Guillen, Carlos, 618
Moreira Salles, Walther, 678
Morgan, Gerald D., 282
Morinigo, General Higinio, 1007*n*
Morse, Wayne, 932
Moskowitz, Sam, 1164–1167
Moura Andrade, Auro, 670, 736, 757–758
Moya, General, 1046–1047
Mueller, Frederick, 144
Muller, Col. Henry J., Jr., 35
Mulliken, Jean H., 793
Muñiz, João Carlos, 640–641, 685, 695, 723
Muñoz, Pedro A., 935*n*
Munoz Marin, Luis, 1151
Murphy, Francis T., 959–961, 965
Murphy, Robert, 18, 68–69, 81*n*, 180, 300, 385*n*, 400*n*, 412*n*, 716*n*, 733*n*, 748*n*, 1003–1004
  Argentina, 400, 452–453, 480
  Brazil:
    U.S. military assistance, 734–735, 749–751
    U.S. military facilities, 644–645, 713–714, 770–771
  Colombia:
    Korean war debt, 857–858, 890, 891*n*
    Political situation, 892, 940*n*
    U.S. military assistance, 876–877, 898–899, 915
  Peru, 1036, 1038–1039
  Venezuela, 1137, 1141, 1144–1145
Mutual Defense Assistance Programs:
  Argentina, 450, 452–453
  Brazil, 643, 660, 729*n*, 730, 745, 757
  Colombia, 859, 869

- Mutual Defense Assistance Programs—Continued
  - Costa Rica, 8
  - Guatemala, 96
  - Nicaragua, 232–233
  - Peru, 1054

- Napalm, 866–867, 869, 870*n*
- Nascimento e Silva, Geraldo Eulalio, 695, 698
- Nash, Frank C., 327*n*
- Nasser, Gamal Abdel, 284*n*, 302, 308, 321, 1066*n*, 1148
- National Advisory Council on International Monetary and Financial Problems, 352*n*, 353–355, 644*n*, 682*n*, 692, 705–710, 713, 804–806, 807–810, 953*n*, 1031, 1041
  - Staff Committee, 407
- National Association of Evangelicals, 888*n*
- National Bank of Washington, 613
- National Intelligence Estimates (*see also* Special National Intelligence Estimates):
  - NIE *82–55*, 88–106
  - NIE *88–56*, 900–915
  - NIE *91–56*, 424–426
  - NIE *92–56*, 556–571
  - NIE *93–55*, 646–661
  - NIE *93–57*, 737–746
- Nationalism:
  - Brazil, 653–654, 660, 666–667, 671, 673, 690, 711, 720, 722, 735, 738–741, 744–746, 757–758, 771–773, 775
- Nationalized industries:
  - Argentina, (*see also* Compañia Argentina de Electricidad (CADE) *and* ITALO *under* Argentina), 429–432
  - Brazil (*see also* Petrobras *under* Brazil), 638, 643, 663, 702, 745–746, 774–775
  - Bolivia, 514, 602, 614–617
  - Venezuela, 1122–1127
- National Security Council:
  - Brazil, 646*n*, 679–681, 682–684
  - Colombia, 857
  - Peru, 1031–1032, 1034–1036
  - Actions:
    - No. *163/1*, 1168–1169
    - No. *1290–d*, 18–19, 1129, 1131, 1168
    - No. *1484*, 752, 1031
- National Security Council—Continued
  - Documents:
    - NSC *5432/1*, 80, 1031–1032, 1035–1036
    - NSC *5613/1*, 23, 1075
  - Meetings:
    - *262d*, 679–681
    - *264th*, 682–684
- Navas Pardo, Brig. Gen. Rafael, 935*n*, 936*n*, 944
- Neal, Jack D., 128*n*, 161–163, 165*n*, 167–169, 174–175, 211–213, 232–234, 269, 277*n*, 323, 1050, 1078–1080, 1134
- Nehru, Jawaharlal, 79
- Newbegin, Robert, 51, 71, 113, 156–159, 195, 254*n*, 260*n*
- New World Hardwood Company, 1112
- Ngo Dinh Diem, 924
- Nicaragua (*see also Nicaragua and Nicaraguan subheadings under other subjects*):
  - Arms sales, 195–197, 203–205, 232–233, 235
  - Corinto Port, 210
  - Costa Rica, relations with, 29, 197–199, 230, 233, 244, 246–247, 1069–1070
  - Economic situation, 200, 237–239
  - El Salvador, relations with, 45, 230, 233
  - Guatemala, relations with, 141
  - Honduras, relations with, 156–159, 170–175, 178–181, 183
  - Israel, trade with, 235–236, 237*n*
  - Lanica Airlines, 240
  - Mamenic Steamship Lines, 231, 240
  - Political parties:
    - Communist Party, 216
    - Conservative Party, 212, 215, 223–224, 225, 234, 241
    - Independent Liberal Party, 212, 215, 223, 225
    - Liberal Party, 214–215, 217, 223, 225, 240
    - National Liberal Party, 228, 230
  - Political situation, 214, 223–231, 239–242
    - Assassination of Somoza, 211–223
  - Rama Road, 238
  - Sea level canal proposals, 291, 301–306, 313–315, 316*n*, 316–317, 337–339
  - United States, relations with, 226–227
  - U.S. economic assistance, 200–209
  - U.S. military assistance, 195–198, 232–233

- Nichols & Company, Inc., 1092
- Ninth International Conference of American States, Bogota, *1948*, 904, 937
- Nixon, Richard M., 66–67, 144, 641–642, 682, 1079, 1096*n*
  - Brazil, 680, 692, 696
  - Visit to Central America and the Caribbean, 2, 12, 33, 199
- Nogues, Ernest A., 404
- Nolting, Frederick E., Jr., 75, 155*n*, 876, 952–953, 1033–1035
- North Atlantic Treaty Organization, 767, 770
- Nuclear power. *See* Atomic energy.
- Nuclear war, 331
- Nufer, Albert F.:
  - Argentina:
    - Defense role of, 358–360
    - Political situation, 377–378, 380*n*
    - Profit remittances by U.S.-owned companies, 350–352, 369, 370*n*, 372–373
    - United States, relations with, 374, 382*n*, 405–406, 1094
    - U.S. economic and military assistance, 396–399

- Obregon, Mauricio, 927
- O'Connor, James F., Jr., 355, 367, 369, 371, 388–393
- Odría y Amoretti, Manuel A., 956*n*, 1058, 1063
- Office of Defense Mobilization, 1158–1159
- Ohly, John H., 820
- Ohmans, John L., 195–198
- Oil. *See* Petroleum.
- Oils, edible, 356–357, 399
- Olano, Gen. Jose Manuel, 362
- Oliva Quintana, Maj. Enrique Trinidad, 53*n*, 92, 107*n*
- Oliva, Juan Francisco, 107, 144
- Onassis Company, 1025
- Operations Coordinating Board, 18, 81, 540, 637, 672
- Ordoñez, Brig. Gen. Luis E., 936*n*, 944
- Organización Regional Interamericana de Trabajadores, 11
- Organization of American States, 179, 410, 648, 697, 767, 922
  - Boundary disputes, 181, 957, 1069–1070
  - Charter of, 403, 409
- Organization of American States—Continued
  - Council of, 158, 180
  - Economic Conference, Buenos Aires, *1957*, 340, 474
  - NATO, relationship to, 767
- Organization of Central American States (ODECA), 38, 105, 173
- Orlich Bolmarcich, Francisco, 28, 141
- Orpeza Castillo, Alejandro, 521
- Ortiz Passarelli, Manuel, 146
- O'Ryan, Juan Francisco, 824*n*
- Osorio, Oscar, 34–45, 105
- Otáñez, Aureliano, 1123–1124
- Overby, Andrew N., 400*n*, 628*n*
  - Brazil, 633, 637, 642–644, 668, 705–709
  - Chile, 776, 787, 807, 809

- Pabon Nunez, Lucio, 897*n*, 948
- Palmer, W.B., 683
- Panama (*see also* Panama Canal Zone *and Panama and Panamanian subheadings under other subjects*):
  - Agreements with the United States:
    - Bases Agreement, *1942*, 328–330
    - Bryan–Chamorro Convention, *1914*, 304*n*, 305, 306*n*, 317, 338–339
    - Convention of *1903*, 285, 288, 297, 327–329
    - General Treaty of Friendship and Cooperation, *1936*, 276–277, 296, 316, 321, 326, 329–331, 335
    - Memorandum of Understandings Reached, *1955*, 252, 259, 311, 323–324
    - Treaty of Mutual Understanding and Cooperation, *1955*, 252, 255, 258–261, 282, 289, 296, 307–308, 310, 320–321, 332
  - Canal Zone, relations with, 256, 278–284, 307–308, 312–313
  - Cape Mala lighthouse, 331
  - Coca Cola, 271
  - Colombia, relations with, 912–913
  - *Nacion*, 253
  - Political situation, 248–249, 332–334
    - Assassination of Jose Antonio Remon, 243–247, 248–254
  - Presidents of the American Republics, meeting, 160, 277–278, 710, 712, 714, 717
  - Rio Hato area, 260, 330–332, 335
  - Sea freight rates, 324–325
  - Sea level canal, 263–265, 346–349

- Panama—Continued
  - Sovereignty over Panama Canal, 284–286, 287, 288–289, 292–295, 297–299
  - Toboga island, 331
  - Transfer of surplus U.S.-owned properties to, 324–325, 343, 345
  - United States, relations with, 256, 262–263, 266–268, 271–273, 284–286, 297–299, 307–313, 315–321, 342–345
  - U.S. bases in, 327–336
  - U.S. military personnel, jurisdiction over, 331–333
  - U.S. radar sites in, 260–262, 268–271, 274–277, 283–284, 293–294, 296–297, 300, 315–316, 321–326, 330–331, 335
- Panama Canal Company, 255*n*, 264, 283, 310, 320, 324, 325, 332, 346, 347
- Panama Canal Zone:
  - Bridge construction, 323, 343, 345
  - Hard liquor, taxation of, 262–263, 278–279, 280–281, 282
  - Panama, relations with, 255–256, 278–284, 307–308, 312–313
  - Panama Canal, capacity of, 337–339
  - Panamanian nautical inspectors, 324–325, 341
  - Radar sites in, 276
  - Sea level canal proposal, 264–265
  - Transportation monopoly in, 278
  - U.S. jurisdiction over, 272–273
  - Wage levels of Panamanian workers, 266–267, 272*n*, 282–284, 308, 310–313, 320, 324, 343
- Panama meeting of Presidents of the American Republics, *1956*, 160, 271, 277–278, 710, 712, 714, 717, 921, 923, 1081, 1132, 1134
- Panama Railroad, 278
- Pan-American Highway. *See* Inter-American Highway.
- Pan American Union, 192
- Paraguay:
  - Argentina, relations with, 1008, 1015, 1022
  - Bolivia, relations with, 998, 1005–1006, 1011, 1016–1017
  - Brazil, relations with, 661, 1007*n*
  - Economic situation, 1009
  - Political parties:
    - Chavistas, 1002
    - Colorado Party, 1000–1003
- Paraguay—Continued
  - Political parties—Continued
    - Febrerista Party, 1000
    - Liberal Party, 1000
    - Unionistas, 1001–1002
  - Political prisoners, 1007
  - Political situation, 1000–1003
  - Pro-Argentine factions, 999, 1001
  - River transport in, 1022
  - Trans-Chaco Road, 1014
  - Tung oil exports, 1012–1013, 1018–1020
  - United States, relations with, 999, 1010–1011, 1013–1015, 1017
  - U.S. economic assistance, 1014–1017
  - U.S. military assistance, 1003–1006
  - Uruguay, relations with, 998, 1007*n*
  - Venezuela, relations with, 1016
- Paranagua, Octavio, 629*n*, 638–639, 642
- Pardo, Juan, 1077*n*, 1085*n*
- Paris, Gen. Gabriel, 935*n*, 936*n*, 943–945
- Parker, George F., 807
- Pasvolsky, Leo, 857
- Patiño, Antenor, 621
- Patterson, Jefferson, 1102–1105, 1110, 1112, 1114–1118
- Paz Estenssoro, Victor, 510, 530, 533, 554, 558, 620–621
- Paz Hipolito, J., 355, 357, 367–369, 370*n*, 371–373, 379
- Pearson, Norman, 512*n*, 522*n*
- Peixoto, Amaral, 717–718, 760
  - Brazil:
    - Atomic energy, 720–723
    - U.S. military assistance, 726, 730, 754–755
    - U.S. military facilities, 734–736, 757–758, 771*n*
- Pellecer, Carlos Manuel, 120
- Peñaherrera, Luis Antonio, 963
- Peñalosa, Luis, 606
- Pena Prado, Juan Manuel, 1078–1079
- Peralta, Benjamin, 966
- Peralta, Carlos Enrique, 151*n*
- Peralta Salazar, Jose Maria, 35
- Perez Chiriboga, 966–967, 974
- Perez de la Cova, Carlos, 1140, 1158–1160, 1163
- Pérez Jiménez, Gen. Marcos, 105, 244–247, 544, 1119, 1127, 1132–1136, 1139, 1148, 1150, 1153, 1156, 1164–1166

- Permanent Court of International Justice, 157–159, 171, 173, 181*n*, 184, 286, 1025, 1028, 1044
- Perón, Juan:
  - Argentina:
    - Defense role of, 358–361, 410–411
    - Political situation, 366, 456–457, 543
    - Profit remittances by U.S.-owned companies, 350–352, 369, 370*n*, 372–373
  - Resignation of, 377–378, 381–382, 885, 1093
- Perry, John M., 990*n*, 992*n*, 993
- Peru (*see also Peru and Peruvian subheadings under other subjects*):
  - Agreement with the United States, bilateral military assistance agreement, *1952*, 1042
  - Colombia, relations with, 880, 913
  - Economic situation, 1049, 1056–1058, 1063–1065, 1083–1085
  - Ecuador, relations with, 954–958, 980–987, 1048–1049, 1050*n*, 1051, 1065
  - *La Prensa*, 1076, 1080
  - Maranon highway, 1057
  - Maranon River, 981, 983, 986
  - Maritime boundary dispute, 1023–1029, 1043–1045, 1058, 1064
  - Political situation, 1062–1063
  - Santa Corporation, 1057
  - Santiago River, 981
  - Tacna-Arica boundary, 983
  - Taxes, excise, 1076–1077
  - United Kingdom, relations with, 1077–1078
  - United States, relations with, 1078–1083
  - U.S. economic assistance, 1023, 1059–1062
  - U.S. military assistance, 1029–1043, 1046–1048, 1049–1055, 1071–1078
- Petroleum:
  - Arica pipeline, 523, 531, 599
  - Bolivia, 507, 523–525, 531–532, 582, 615–616
  - Brazil, 631*n*, 678, 726, 743–744, 764–765
    - Foreign investment in, 657, 688–694, 762, 783
    - Legislation re, 628–630, 635, 653, 674
    - Petrobras, 476, 630, 639, 643, 644*n*, 693–694, 743*n*, 762, 765, 772, 774
- Petroleum—Continued
  - Brazil—Continued
    - State monopoly for, 638, 643, 665, 702, 744, 746, 774
  - Chile, 779–780, 790, 852
  - Venezuela, 1119–1124, 1127–1128, 1140, 1156–1157, 1162–1164, 1168–1171
- Peurifoy, John E., 52–53, 56-57
- Philadelphia National Bank, 919
- Phillips, Richard I., 287*n*
- Phleger, Herman, 274*n*, 379, 732*n*, 748*n*
- Picado, Teodoro, 4, 24
- Piedrahita Arango, Rear Adm. Ruben, 935*n*, 936*n*, 944
- Pigott, C. Montague, 915, 923, 931, 938*n*
- Piñeros Corpas, Joaquín, 923
- Pizarro, Gonzalo, 1027–1028, 1047*n*
- P.L. *480. See under* Congress, U.S.
- Ploesner, Walter C., 1019–1022
- Podesta Costa, Luis A., 399, 404, 439*n*
- Poland, 449, 661, 701
- Ponce Enríquez, Camilo, 965, 968, 975, 988, 991, 993–994
- Ponce Luque, Alejandro Teodoro, 965
- Pool, John C., 163, 185*n*, 189–193
- Poole, Richard A., 942*n*
- Posada, Jaime, 880
- Post, Albert, 836*n*, 1111*n*
- Potter, Brig. Gen. William E., 267*n*, 279, 315, 316*n*, 317
- Powell, Oscar M., 522, 532, 535
- Prado Ugarteche, Manuel, 1062–1067, 1069–1071, 1078, 1082
- Prat Echaurren, Jorge, 777, 779, 788
- Prebisch, Raúl, 388–390, 407, 430
- Presidents Fund, 975
- Presidents of the American Republics meeting, Panama, *1956*, 160, 271, 277–278, 710, 712, 714, 717, 921, 923, 1081, 1132, 1134
- Press, freedom of the:
  - Argentina, 375, 391, 456, 458, 884*n*, 885
  - Colombia, 879–881, 884–885, 892, 921–922
- Price, Waterhouse & Company, 594
- Price, William E., 304*n*, 316*n*, 323–324, 326, 342*n*, 345*n*
- Pringle, Sandy M., 982*n*, 1071*n*, 1071
- Prio Socarras, Carlos, 199
- Prochnow, Herbert V., 384*n*, 400*n*, 444*n*, 523*n*, 681*n*
  - Argentina, 385*n*, 434–436, 441

Prochnow, Herbert V.—Continued
  Bolivia, 524
  Brazil, 704–705, 707, 709
  Chile, 807, 809
  Nicaragua, 205, 207–208
  Venezuela, 1144
Puerto Rico, 185, 768, 1139, 1151
Puga Vega, Mariano, 823–824, 830, 837, 839, 842–847
Pure Oil Company, 1021

Quadros, Janio, 652
Quilici, Juan T., 1088
Quinonez, Edmundo, 151–152
Quito Fisheries Meeting, *1955*, 1058

Radford, Adm. Arthur W., 145, 300, 683, 1026, 1153
Ramirez Boettner, Luis, 1003, 1020*n*
Ranney, Col. Daniel A., 952
Raquet, Frank J., 1091–1092
Ravndal, Christian M., 968–972, 976, 978*n*, 979, 987, 990
Redmond, Kenneth H., 10*n*
Regalado, Thomas, 35–36, 40
Reid, Ralph W.E., 705, 708, 807, 809
Remón, Alejandro "Toto", 249
Remón, José Antonio, 243–252, 258
Remón, Mrs., 249–251
Remorino, Jeronimo, 358
Resolution *XCIII*, "Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism". *See* Caracas Resolution *XCIII*.
Reuther, Walter, 530
Reyes, Gen. Régoberto, 224
Rhee, Syngman, 924
Rial, Rear Adm. Arturo, 429–430, 439*n*, 454
Richards, Arthur L., 305, 553*n*, 576
Richardson, Capt. G.F., 222
Ridgway, Gen. Matthew B., 867
Riggs National Bank, 613
Rio Economic Conference, *1954*, 509, 627, 631, 1064
Rio Protocol, *1942*, 954*n*, 981, 985–986, 1048, 1065
Rio Treaty. *See* Inter-American Treaty of Reciprocal Assistance.
Ritter, Eduardo, 323
Rivas Sacconi, Jose Manuel, 927*n*, 932*n*
Robertson, Reuben, 300
Robinson, Hamlin, 593*n*
Rocke, Lucian L., Jr., 949
Rockefeller, Nelson, 318*n*, 319, 680, 683, 787, 871
Rockefeller Foundation, 192
Roderick, George H., 260*n*, 266, 275, 297, 309
Rodrigues Valle, Henrique, 726
Rodriguez, Mario, 811, 814
Rodriguez, Roque, 163, 176–178
Rojas Pinilla, Gen. Gustavo:
  Colombia:
    Economic situation, 874–875, 916, 918
    Military situation, 863–865
    Political situation, 860–861, 894–895, 901–902, 905–907, 913–915
    Press closings, 879–881, 884–885, 892
    Protestants in, 897*n*, 897, 928, 931, 934
    United States, relations with, 922, 926
    U.S. economic assistance, 930*n*, 931
  Resignation of, 935–938
Rojas, Rear Adm. Isaac Francisco, 391, 402, 456
Roman Catholic Church. *See* Church-State relations.
Romero Pereira, Tomás, 1001
Rompani, Santiago I., 1089–1090
Romualdi, Serafino, 528, 700
Roosevelt, Franklin D., 263*n*, 754
Rosa, Joseph, 674*n*
Rose, H. Chapman, 682
Rosenhouse, Harvey, 43
Rosenson, Alexander M., 421, 802, 806*n*, 852, 854, 966, 1156*n*
Rountree, William M., 286
Rowell, Edward J., 673*n*, 676*n*, 681*n*, 714*n*, 721*n*
Rowntree, R. Henry, 434, 436, 441
Rubber industry, 526–527
Rubottom, Roy R., 319*n*, 472*n*, 573*n*, 586*n*, 723*n*, 732*n*, 826*n*, 982*n*, 1081*n*, 1140*n*, 1155*n*
  Argentina:
    Political situation, 454–455
    United States, relations with, 433–434, 456, 467*n*, 470*n*, 498, 507*n*
    U.S. economic assistance, 434, 459–463, 474, 487, 489, 491
    U.S. military assistance, 449–450, 452*n*

- Rubottom, Roy R.—Continued
  - Bolivia, 592–595, 599, 605–607, 611–617
  - Brazil, 730, 754*n*, 755*n*, 764
    - U.S. military assistance, 726, 750, 754–755
    - U.S. military facilities, 713–717, 748–749, 770, 771*n*
  - Chile, 830–833, 835–839, 840, 844, 846–847
  - Colombia, 928, 930, 932–934, 936–939
  - Costa Rica, 18, 31–32, 46
  - Ecuador, 966*n*, 966–967, 969, 973–978, 988, 989–990, 996–997
  - Guatemala, 130–131, 133–134, 138–142, 147, 148–149
  - Honduras, 161–165, 167–170, 176–178, 182–189, 194
  - Honduras-Nicaragua border dispute, 170–175, 177–180
  - Nicaragua, 211, 213*n*, 227*n*, 337–339
  - Panama, 315–316, 322–326, 340–342
  - Panama Canal, 284, 286*n*, 287–290
  - Paraguay, 1012–1017, 1020
  - Peru, 1071–1074, 1082*n*
  - Sea level canal proposal, 305–306, 316–317, 337–339
  - Uruguay, 1106, 1110–1113, 1117
  - Venezuela, 1144–1145, 1147–1150, 1155–1156, 1158–1161
- Ruihley, Glenn R., 978
- Ruiz Jiménez, 888
- Rutherford, Minter R., 1162*n*

- Sainte Marie Sorucco, Osvaldo, 814
- Saks, Julien, 107, 791
- Saldías, Adm. Roque A., 1041–1045
- Salera, Virgil, 353
- Salgado, Plineo, 668, 670
- Sammons, Robert, 705
- Samoré, Antonio, 888, 933
- Sanchez, Col. Herberto, 212
- Sanders, Terry B., Jr., 487, 489, 615, 796–801, 930*n*, 939*n*, 982*n*, 1145, 1162
- Santiago Declaration, 1044
- Santos, Eduardo, 854, 880
- Sanz de Santamaria, Carlos, 939, 949
- Sapena Pastor, Raúl, 1015–1017, 1019–1022
- Sargent, Henry, 111, 129, 436
- Sauer, Walter C., 434, 436–437, 489–492
- Sayre, Robert M., 540*n*, 714*n*, 715, 732*n*, 748*n*, 749*n*, 753*n*, 820*n*, 976*n*, 1003*n*, 1005, 1046–1047, 1047*n*, 1054*n*, 1071, 1074*n*
- Scafuro, Francis X., 916–918
- Scarpati, Juan, 362–365
- Schaefer, Walter, 579, 807, 809
- Schaffner, Philip P., 579–580
- Schroeder Bank, 919
- Schuster and Davenport, 550*n*
- Schwartz, Harry H., 682, 1038
- Senate, U.S. *See under* Congress, U.S.
- Sevilla-Sacasa, Guillermo, 159, 172, 195, 197–200, 204–205, 212–213, 223–224, 237, 240
- Sevilla Sacasa, Oscar, 241
- Seybold, Brigadier General John S., 262*n*, 266–267
- Shaw Bank, 997
- Shenefield, Hale T., 579, 705, 807
- Shepherd, Gen. Lemuel C., 987
- Sherwood, Robert K., 68*n*
- Shohan, Charles, 441, 579, 705, 807
- Sieniawski, Michael, 917
- Signal Corps, U.S., 771*n*
- Silberstein, Joseph A., 574*n*, 601, 616–617, 801–802, 803*n*, 824*n*, 826*n*
- Siles Zuazo, Hernan:
  - Bolivia:
    - Economic situation, 545–547, 550–552, 581, 584, 586–592, 595–599, 605–610, 612, 614–615
    - Political situation, 538, 554–555, 557, 560–562, 574–575, 618–622
    - United States, relations with, 533–536, 603, 838
    - U.S. economic assistance, 544–547, 600–602
    - U.S. military assistance, 540–541
- Silva, Jorge, 780
- Silva, Rene, 847
- Silva Arguello, Cornelio, 229–230
- Silva Rojas, Colonel, 1046, 1047
- Siracusa, Ernest V., 377, 537, 573*n*, 723*n*, 726*n*, 732*n*, 753*n*, 755*n*, 768–769, 804*n*, 806*n*
- Sixth Congress of Teachers, Montevideo, 9
- Smathers, George A., 166*n*, 239*n*, 989*n*
- Smathers Amendment, 166, 170
- Smathers Fund, 171, 179, 183, 192
- Smith, Marshall M., 353–354, 441, 579, 705, 707
- Smizer, David, 668

Snow, William P., 146, 477–479, 484*n*, 759, 761–762, 988, 1012–1014, 1018*n*, 1107, 1156*n*
de Sola, Chico, 42
Solis B., Juan Rafael, 15
Somarriba, Leonardo, 241
Somoza, Anastasio, 29, 31–32, 45, 195, 199, 201–204, 244, 247
  Assassination of, 211–223, 245–246, 314
Somoza, Anastasio, Jr., 212, 218, 223–225, 227, 229, 231, 240
Somoza, José, 240
Somoza, Lillian, 240
Somoza, Luis, 105, 141, 158, 172, 179, 181*n*, 211–212, 214–218, 223–228, 230–231, 233–234, 237–242, 313, 315*n*
Sourdis, Evaristo, 865, 888, 893, 897*n*, 923–925
South American Gold and Platinum Company, 621
Southard, Frank A., Jr., 441, 579–580, 705, 709, 801, 806*n*, 807–808, 878
South Atlantic Regional Pact, 450
Southeast Asia Treaty Organization, 823
Soviet Bloc, 660–661, 744, 772–773, 812
Soviet Union, 292, 968, 996
  Brazil, relations with, 661, 693–694, 701–704, 744, 766–767, 770–771, 774–775
  Economic situation, 686
  Latin America, relations with, 385, 416, 422, 702, 912, 1063, 1099, 1104
  People's Republic of China, relations with, 762
  Trade with, 365, 793–794, 812, 837, 1106–1107
Sowash, William B., 223*n*, 254*n*, 260*n*, 262*n*, 274*n*, 287*n*, 289*n*, 320*n*
  Nicaragua, 313–314
  Panama, 252, 257, 266–267, 269, 275–276, 283, 296–298, 313, 315–316
Spaak, Paul-Henri, 767
Spain, 694, 944
Spang, Kenneth M., 593*n*
Sparks, Edward J., 81*n*, 197–198, 632–633, 1035, 1046*n*, 1088*n*, 1122
  Guatemala, 51, 68*n*, 71, 79*n*, 107–109, 113, 121–125, 130, 132*n*, 138, 152–153
Spear, Ralph, 145
Special National Intelligence Estimates (*see also* National Intelligence Estimates):
  SNIE *83.3–56*, 214–218
  SNIE *84–55*, 243–247
  SNIE *91–57*, 495–498
Spellman, Francis Cardinal, 367–368
Spencer, George O., 644*n*, 855, 882*n*, 952*n*, 953*n*, 1035, 1050*n*
Sprague, Mansfield D., 144, 1074
Sputnik I, 766–767, 770
Staats, Elmer B., 669*n*, 776, 787, 788*n*
Stafford, William, 111*n*, 112*n*, 435
Stambaugh, Lynn U., 353, 434, 441, 579
Standard Oil Company of California, 351*n*, 356, 359, 362*n*, 382
Standard Oil Company of New Jersey, 690
Stassen, Harold E., 68, 69*n*, 512*n*, 513, 516, 680, 776–777, 787
Steel, 352–355, 362, 364, 388–389, 397–398, 423, 817*n*, 875, 887
Stevens, Robert T., 49
Stewart, C. Allan, 12, 132*n*, 135, 176, 182–183
Storm, Gustavo F., 1008
Strategic materials, control of, 794–795, 839*n*
Strauss, Lewis L., 144, 680, 682, 723
Stroessner, Alfredo, 1000–1003, 1006–1008, 1010–1011, 1014–1015
Strong, Thomas S., 793
Stuart, Daniel, 1137
Sturgill, Robert G., 511*n*
Suez Canal, 284–295, 302, 303, 321, 614, 723*n*, 726, 744, 746, 767, 968, 1147
Suez Canal Company, 1066*n*
Sugar, 1056–1057, 1066
Sullivan, Charles A., 1033–1034, 1041–1043
Sweden, 195–196
Swift Meat Company, 356*n*, 390, 1116
Szulc, Tad, 753
Szymczak, M.S., 353–354, 441

Taft, Charles P., 856
Taft, William Howard, 157
Talbott, Harold E., 49
Tamayo Ramos, Jorge, 587, 597*n*, 601, 606, 610
Tamayo Suarez, Lt. Col. Oscar, 1166
Tariki, Sheik Abdullah, 1163
Tarud, Rafael L., 780

Taxation:
  Brazil, 630, 658–659, 741, 743
  Chile, 778, 783, 803, 806, 821, 832, 849–850
  Peru, 1076–1077, 1084
Taylor, Thomas, 1087–1089
Technical Cooperation Program, 25
Tenth Inter-American Conference, Caracas, *1954* (*see also* Caracas Resolution *XCIII*), 28, 403, 627, 697*n*, 1136*n*
Terán Verea, Jose Gabriel, 964–965
Terrill, Robert P., 642, 693, 720
Territorial waters (*see also* Fisheries), 963, 1023–1029, 1043–1045, 1058, 1064
Texas Gulf Sulphur Company, 73
Thailand, 857–858, 889–890
Thomas, Charles S., 49, 358–359
Thompson, Clark W., 339*n*
Thorium, 648, 720, 744
Time magazine, 43, 302
Tittmann, Harold H., Jr., 1023
Tin, 509, 526–529, 532, 545–546
Topping, John L., 508, 511*n*, 521, 522*n*
Toriello, Guillermo, 150, 153
Trabanino, Jose Guillermo, 38, 233
Tragen, Irving, 42
Transcontinental Airlines, 499
Transportation:
  Argentina, 435–436, 438–439, 442, 443*n*, 447, 458, 485, 491
  Brazil, 677, 681, 707, 726, 742, 746, 774
  Canal Zone, 278
  Chile, 850, 852–853
  Colombia, 920
  Ecuador, 967, 990*n*
  Guatemala, 151
  Honduras, 192
  Inter-American Highway, 25, 66–67, 74–75, 80, 86, 103, 210, 258
  Nicaragua, 238
  Panama, 324–325
  Peru, 1057, 1067, 1080–1081
  Uruguay, 1109, 1112–1113
Trapnell, General, 770
Treasury, U.S. Department of:
  Brazil, 628, 629*n*, 638–639, 641, 670*n*, 674, 677*n*, 704*n*, 756
  Chile, 786–787, 789*n*, 791, 801–802, 805–806, 808–812, 830, 840, 850, 853
  Uruguay, 1095–1096, 1098–1099, 1108
Trelles, Brigadier Danilo, 1115
Trimble, William C., 633–636, 642, 644*n*, 673*n*, 716*n*, 720
Trudeau, Maj. Gen. Arthur G., 70, 72
Trujillo Molina, Hector B., 245
Truman, Harry S., 264, 392*n*, 1019
Tung oil, 504, 1012–1013, 1018
Turkel, Harry R., 553*n*, 585*n*, 589*n*, 592, 594, 616, 674*n*, 837–840, 842–844, 852–854, 941
Turnage, William V., 632–633
Tyndall, Arthur, 594*n*

Ubico, Jorge, 88, 187
Ulate, Otilio, 27–28
Umana, Ignacio, 887, 920
United Fruit Company:
  Costa Rica, 2, 10–18, 22
  Guatemala, 52–53, 57–58, 73, 101, 117
United Kingdom, 528, 530, 795, 837, 1075, 1077–1078
United Nations, 169, 342, 648, 744, 912, 1005, 1103, 1148
  People's Republic of China, admission of, 815
  "Uniting for Peace" resolution, 872
United Nations Children's Fund (UNICEF), 950
United Nations Emergency Force (UNEF), 744, 968
United Nations Relief Commission, 167
United Nations Technical Assistance Administration, 521–522
United Press, 375
United States Exchange Stabilization Fund, 812
United States Information Agency (USIA), 8, 667, 672, 781–782, 784, 786*n*, 803
United States Information Service (USIS), 27, 775
Uranium, 680*n*, 720
Urrutía Holguín, Francisco, 867, 872, 887, 894, 897, 918, 920, 928–929, 932–934, 936–939
Uruguay:
  Administración General de las Usinas Eléctricas y los Teléfonos del Estado (UTE), 1105
  Agreements with the United States, 1108
  Agricultural exports, 1097–1098
  Argentina, relations with, 368–369, 380, 1093–1094
  Bank of the Republic, 1087*n*

Uruguay—Continued
  Brazil, relations with, 661, 1098
  China, People's Republic of, trade with, 1106–1107
  Colorado Party, 1102–1103
  Czechoslavakia, relations with, 1099, 1107
  Economic situation, 1102–1103, 1105
  Engraw Export & Import Company, S.A., 1091–1092
  Export-Import Bank, loans to, 1096–1097
  FMI, 1088
  Frigorífico Nacional, 1087, 1103, 1116
  Germany, Democratic Republic of, trade with, 1106
  Germany, Federal Republic of, trade with, 1103
  Justocia, 1105
  Labor unions, 1102–1105
  Linseed oil, 1098
  Meat packing, 1087–1089, 1102, 1110, 1116
  Military situation, 1103–1104
  Montevideo Electric Power System, 1096
  Paraguay, relations with, 998, 1007*n*
  Political situation, 1102–1103, 1113
  Railroad crossties, 1109–1110, 1112–1113
  Rincon de Baygorria, 1096, 1101, 1105
  Sociedad Reg, 1112
  Soviet Union, relations with, 1099, 1104, 1106
  State Railways Administration (AFE), 1112–1113
  Tacoma, 1103
  Tribunal de Cuentas, 1113
  United Nations, participation in, 1103
  United States, relations with, 1086–1087, 1104–1105, 1107–1108
  U.S. economic assistance, 1089–1090, 1096–1097, 1100–1101, 1105–1106, 1109
    P.L. *480* program, 1097–1098, 1104–1105, 1109, 1115, 1117–1118
  U.S. military assistance, 1102–1104
  Uruguayan State Railroad, 1109
  Wool tops, 1091–1092, 1095–1096, 1098–1099, 1108, 1111, 1117
Urzúa Merino, Eduardo, 818
U.S. Army Caribbean Command School, 8, 283

Vado, Conrado, 241
Vaky, Viron P., 381*n*, 407, 412*n*, 427*n*, 434, 441, 444*n*, 448*n*, 449, 452*n*, 454*n*, 460, 469, 472*n*, 477*n*, 479*n*, 489, 493–495, 498–499, 1012*n*, 1018*n*
Valencia, Guillermo Leon, 943–944, 946–948
Vallarino, Joaquin José, 245, 262, 271
Vallarino, Rafael, 295
Vallenilla Lanz, Laureano, 1166–1167
Vargas, Getúlio, 417, 536, 627*n*, 633–635, 646, 648–654, 657–658, 664–666, 670–671, 687, 715, 739, 754
Vassallo, Carlos, 796–799
Velasquez, Armando, 182, 189
Venezuela:
  Agreements with the United States:
    Air Force Mission agreement, 1152
    Army Mission agreement *1951*, *1957*, 1127
    Supplementary Trade Agreement, *1952*, 1127, 1159
  American Chamber of Commerce, 1154
  Anaco Oil Field, 1145
  Arab League Oil Congress, 1162–1163
  Caroni power project, 1122
  Colombia, relations with, 913
  Costa Rica, relations with, 244, 246
  Foreign relations of, 1147
  Guarico Dam, 1126
  Guatemala, relations with, 1125
  Haiti, loans to, 1125
  Internal security situation, 1131, 1168–1171
  Labor, 1135–1136, 1165–1166
  National Petroleum Convention, *1951*, 1163
  Neurological Institute, 1135
  Paraiso Club, 1135–1136
  Petroquimica, 1144–1145
  Political activity by exiles, 1138–1139, 1150–1151
  Political parties:
    Acción Democrática, 1139, 1150–1151
    COPEI, 1151
    URD, 1151
  Political situation, 1128, 1164–1167
  United States, relations with, 1127–1129, 1132–1136, 1153
  U.S. economic assistance, 1144–1145
  U.S. military assistance, 1137–1146, 1149–1150, 1151*n*

Venezuela—Continued
  U.S. oil import restrictions, 1119–1121, 1123–1124, 1132–1133, 1140, 1154–1162
  U.S. private investment in, 1156
Verrier, Roberto, 454–455
Vicchi, Adolfo, 408–411, 429, 439–440, 444–451, 458n, 460–463, 468n, 469–471
Villarreal, Jose Maria, 939
Villaveces, Carlos, 875, 878, 917, 918, 929, 930n
Villeda Morales, Ramón, 140, 160–161, 171, 174, 176, 178, 183–187, 188–194

Wallner, Woodruff, 763–764
Walters, Lt. Col. Vernon A., 814, 1134
War of the Triple Alliance, *1865–1870*, 1011
Wardlaw, Andrew B., 949, 1000–1003, 1006–1009
Warner, Norman E., 183n, 185n, 187
Warren, Fletcher, 1119
Waterston, Albert, 603, 874, 886–887, 917–918, 929, 930n
Watrous, Livingston D., 370n, 371n, 412n, 998, 1107–1110, 1111n, 1117–1118
Waugh, Samuel C., 393n, 394n, 400n, 511n, 877, 891n, 1056n
  Argentina, 384–385, 387–390, 421, 430, 434–436, 458n, 471n, 485, 490–492
  Bolivia, 508–510, 523
  Brazil, 637, 682n, 705–710
  Chilean stabilization program, 795, 807, 809, 840, 844
  Ecuador, 958, 991–993
  Peru, 1033–1035, 1038, 1040n
Weaver, Findley, 370n
Weeks, Sinclair, 1160
Weiss, Leonard, 84
Whelan, Thomas E., 45, 46n, 181n, 195, 199, 204–205, 210, 218n, 221, 232, 237–242, 314
Whitaker, Jose Maria, 665–667, 668
White, Lincoln, 830n
White, Thomas D., 683
Whiteman, Marjorie M., 159, 286, 289n, 306, 1027
Whitman, Ann C., 295n, 307
Wieland, William A., 187–189, 235, 965
Willauer, Whiting, 155–156, 160–163, 165–170, 179n, 182–184, 194
Williams Brothers, 1021
Willis, George H., 353, 439, 579–580, 705, 807, 1095–1096
Wilson, Charles Erwin, 144, 280–281, 284n, 360, 856–857, 862, 889–891
Wilson, Brig. Gen. James K., Jr., 748n, 768–769, 952
Wilson and Company, 356n
Wirin, Harry B., 441
Wollam, Park F., 161–162, 167n, 169n, 200, 204, 210, 211n, 218, 222n, 223–227, 315
Women's International Democratic Federation, 21
Woodward, Robert F., 2–18, 31
Wool tops. *See under* Uruguay.
World Bank. *See* International Bank for Reconstruction and Development.
World Court. *See* Permanent Court of International Justice.
World Federation of Trade Unions, 20–22
W.R. Grace and Company, 532, 917
Wyeth, George A., Jr., 18
Wythe, George, 353, 705

Yadarola, Mauricio Luis, 486–489
Ydigoras Fuentes, Gen. Miguel, 99, 146, 153, 154n
Young, John Parke, 579
Young, Philip, 282
Yugoslavia, 1148

Zaglits, Oscar, 441, 579, 807, 809
Zelaya, José Santos, 157
Zinc, 1076–1077
Zubiria, Alberto F., 1113
Zuleta Angel, Eduardo, 855–857, 859–860, 863, 865–867, 869–872, 887n